2022 ANNUAL
Management's Discussion & Analysis and Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

	As at and for the year ended December 31,		
	2022	2021	2020
Revenue	255,022	222,567	181,503
EBITDA	186,125	156,678	118,571
Net income (loss) [(1)]	25,108	9,110	(1,390)
Preferred dividends	2,776	2,533	2,452
Total assets	1,550,435	1,369,491	1,240,260
Total long-term liabilities	977,502	857,100	750,557

(1) Net income (loss) attributable to the common shareholders of Capstone, which excludes non-controlling interests.

INSIDE THIS SECTION

LEGAL NOTICE

This document is not an offer or invitation for the subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of any investors. Before making an investment in Capstone Infrastructure Corporation (the "Corporation"), an investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained within this document are forward-looking and reflect management's expectations regarding the future growth, results of operations, performance and business of the Corporation based on information currently available to the Corporation. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements use forward-looking words, such as "anticipate", "continue", "could", "expect", "may", "will", "intend", "estimate", "plan", "believe" or other similar words, and include, among other things, statements found in "Results of Operations" and "Financial Position Review". These statements are subject to known and unknown risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied by such statements and, accordingly, should not be read as guarantees of future performance or results. The forward-looking statements within this document are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions set out in the management's discussion and analysis of the results of operations and the financial condition of the Corporation ("MD&A") for the year ended December 31, 2022 under the headings "Changes in the Business", "Results of Operations" and "Financial Position Review", as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation's SEDAR profile at www.sedar.com).

Other potential material factors or assumptions that were applied in formulating the forward-looking statements contained herein include or relate to the following: that the business and economic conditions affecting the Corporation's operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes, inflation, and interest rates; that the preferred shares will remain outstanding and that dividends will continue to be paid on the preferred shares; that there will be no material delays in the Corporation's development projects achieving commercial operation; that the Corporation's power facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; that there will be no further material changes to the Corporation's facilities, equipment or contractual arrangements; that there will be no material changes in the legislative, regulatory and operating framework for the Corporation's businesses; that there will be no material delays in obtaining required approvals for the Corporation's power facilities; that there will be no material changes in environmental regulations for the power facilities; that there will be no significant event occurring outside the ordinary course of the Corporation's businesses; the refinancing on similar terms of the Corporation's and its subsidiaries' various outstanding credit facilities and debt instruments which mature during the period in which the forward-looking statements relate; market prices for electricity in Ontario and the amount of hours that the Cardinal Facility is dispatched; the price that the Claresholm Solar Facility will receive for its electricity production considering the market price for electricity in Alberta; and the price that the Whitecourt Biomass Facility will receive for its electricity production considering the market price for electricity in Alberta, and the Whitecourt Biomass Facility's agreement with Millar Western, which includes sharing mechanisms regarding the price received for electricity sold by the facility.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements, actual results may differ from those suggested by the forward-looking statements for various reasons, including: risks related to the Corporation's securities (controlling shareholder; dividends on common shares and preferred shares are not guaranteed; volatile market price for the Corporation's securities); risks related to the Corporation and its businesses (availability of debt and equity financing; default under credit agreements and debt instruments; geographic concentration; acquisitions, development and integration; environmental, health and safety; changes in legislation and administrative policy; foreign exchange fluctuations; reliance on key personnel); and risks related to the Corporation's power facilities (power purchase agreements; operational performance; market price for electricity; contract performance and reliance on suppliers; completion of the Corporation's wind and solar development projects; land tenure and related rights; the COVID-19 pandemic; environmental; insurance coverage; climate change; cybersecurity and reliance on information technology; regulatory environment; environmental attributes; US jurisdiction; US tax incentives and availability of tax equity financing).

For a comprehensive description of these risk factors, please refer to the "Risk Factors" section of the Corporation's Annual Information Form dated March 22, 2022, as supplemented by disclosure of risk factors contained in any subsequent annual information form, material change reports (except confidential material change reports), business acquisition reports, interim financial statements, interim management's discussion and analysis and information circulars filed by the Corporation with the securities commissions or similar authorities in Canada (which are available under the Corporation's SEDAR profile at www.sedar.com).

The assumptions, risks and uncertainties described above are not exhaustive and other events and risk factors could cause actual results to differ materially from the results and events discussed in the forward-looking statements. The forward-looking statements within this document reflect current expectations of the Corporation as at the date of this document and speak only as at the date of this document. Except as may be required by applicable law, the Corporation does not undertake any obligation to publicly update or revise any forward-looking statements.

INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes Capstone Infrastructure Corporation's (the "Corporation" or "Capstone") consolidated financial position, operating results and cash flows as at and for the years ended December 31, 2022 and 2021.

This MD&A should be read in conjunction with the accompanying audited consolidated financial statements of the Corporation and notes thereto as at and for the years ended December 31, 2022 and 2021. Additional information about the Corporation, including its Annual Information Form ("AIF") for the year ended December 31, 2021, quarterly financial reports and other public filings of the Corporation are available under the Corporation's profile on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

This MD&A is dated March 9, 2023, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

Financial information in this MD&A is prepared in accordance with International Financial Reporting Standards ("IFRS") and amounts are in Canadian thousands of dollars or thousands of share amounts unless otherwise indicated.

ADDITIONAL GAAP PERFORMANCE MEASURES DEFINITIONS

This MD&A also contains EBITDA, a performance measure not defined by IFRS. EBITDA is an additional GAAP performance measure and does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. The Corporation believes that this indicator is useful since it provides additional information about the Corporation's earnings performance and facilitates comparison of results over different periods. EBITDA is defined as earnings (loss) before financing costs, income tax expense, depreciation and amortization. EBITDA includes earnings (loss) related to the non-controlling interest ("NCI"), equity accounted investments, interest income, other gains and losses (net), and foreign exchange gains and losses. EBITDA represents Capstone's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible capital assets and intangible assets, which vary according to their age, technology, and management's estimate of their useful life. EBITDA is presented on the consolidated statement of income.

CHANGES IN THE BUSINESS

In 2022, Capstone continued to execute on its strategic objectives, advancing its development projects and successfully managing financing activities providing funding for continued growth, despite evolving global events.

Project Development Activities

Capstone successfully advanced its development projects achieving commercial operations ("COD") at Michichi subsequent to the year-end, and continues to pursue projects at various stages of development, and to build a development pipeline across several jurisdictions. The following table lists the significant development projects:

Name of project	Status	Gross MW	Jurisdiction	Technology
Michichi	COD March 3, 2023	25	Alberta	Solar
Kneehill	Construction	25	Alberta	Solar
Buffalo Atlee	Construction	61	Alberta	Wind
Wild Rose 2	Development	192	Alberta	Wind
Early-stage development projects	Development	>800	Canada	Wind/Solar
MW capacity in Canada		**>1,103**		
Early-stage development projects	Development	>1,000	United States	Wind/Solar/Storage
MW capacity in the United States ("US")		**>1,000**		

Capstone expects to fund these projects from a combination of sources including equity from existing corporate liquidity, government funding, and third party project financing.

Wild Rose 2 and Buffalo Atlee

Capstone's Wild Rose 2 project entered two offtake agreements in 2022, effectively contracting over 95% of the facility's capacity. These consist of an agreement with Pembina Pipeline Corporation for the offtake of 105MW of renewable energy and associated renewable energy attributes over 15 years, and a 78MW agreement with the City of Edmonton to supply renewable attributes over 20 years.

On June 10, 2022, Capstone's Buffalo Atlee 1-3 projects terminated their Renewable Electricity Support Agreements with the Alberta Electric System Operator ("AESO") in accordance with the termination and release agreements that were entered into between the projects and the AESO.

Further, Wild Rose 2 and Buffalo Atlee projects executed turbine supply agreements with Siemens Gamesa Renewable Energy Inc. for the procurement of 51 turbines, as well as executed engineering, procurement and construction contracts.

Equity accounted investments

On June 7, 2022, a Capstone subsidiary entered into an agreement with a subsidiary of Eurowind Energy A/S ("Eurowind") for the purpose of jointly developing renewable energy projects in the US. Capstone and Eurowind have equal interests in these projects. Capstone's consolidated financial statements include its 50% interest as an equity accounted investment adjusted by the share of net income (loss) and contributions made subsequent to Capstone's initial contribution on June 7, 2022.

SLGR reorganization

On July 14, 2022, the Ganaraska and Grey Highlands ZEP ("GHG"), Snowy Ridge ("SR"), and Settlers Landing ("SLS") wind projects were reorganized. As part of the reorganization, Capstone purchased 1% of the conversion option held by a subsidiary of One West Holdings Ltd. ("Concord") and then the assets and liabilities of these wind projects were transferred into SLGR Wind LP ("SLGR"). Concord then exercised its right to convert its debenture into a 49% equity interest in the projects, resulting in Capstone and Concord having 51% and 49% ownership of SLGR, respectively. The projects remain consolidated in the consolidated financial statements of Capstone.

Genalta Power Inc. ("Genalta")

On November 17, 2022, Capstone Power Corp. purchased all of the remaining shares of Genalta not owned by Capstone by way of a plan of arrangement, resulting in the consolidation of Genalta in the consolidated financial statements of Capstone.

Sechelt Creek Facility EPA

On October 30, 2022, Capstone entered into an extension to the Sechelt Creek hydro facility Electricity Purchase Agreement ("EPA") with BC Hydro until January 31, 2023. Following this, on February 1, 2023, Capstone entered into a new 20 year EPA for the Sechelt Creek facility with BC Hydro, subject to BCUC approval.

Financing Activities

Capstone successfully executed several project-level financings and refinancings to primarily facilitate growth and take advantage of market conditions. Furthermore, corporate liquidity improved on receiving Class A common shareholder contributions and expanding the Capstone Power Corp. ("CPC") credit facilities.

Claresholm term conversion

On March 24, 2022, the Claresholm construction facility was converted to a term loan, amortizing over 20 years. The term loan is comprised of two tranches, a floating interest rate tranche which matures on March 24, 2026 and a fixed interest rate tranche which matures on July 9, 2032. To mitigate the interest rate risk from the bank lenders, Claresholm has swap contracts to convert the floating interest rate obligations to a fixed rate.

Riverhurst financing

On April 27, 2022, Riverhurst entered into a credit agreement which provided $47,000 of variable rate project debt, which has swap contracts to convert the obligations to a fixed rate, amortizing over 20 years.

SLGR refinancing

Concurrent with the reorganization described above, SLGR executed a refinancing which provided $119,000 of variable rate project debt and swap contracts to convert the variable rate obligations to a fixed rate. The debt amortizes over the remaining term of the projects' power purchase agreements of approximately 14 years. The proceeds of the SLGR financing were used in part to fully repay the existing project debt at GHG, SR, and SLS.

Michichi and Kneehill financing

On December 22, 2022, Michichi and Kneehill entered into a credit agreement which provided $41,500 of variable rate debt for the construction of the solar facilities. To mitigate the interest rate risk, a swap contract was executed to convert the floating interest rate obligations to a fixed rate.

Class A shareholder funding

Capstone's Class A common shareholder contributed $80,000 in cash in 2022. In addition, Capstone has outstanding letters of credit of $40,679 which are supported by the common shareholder under a financing and reimbursement agreement. Under the terms of the agreement, Capstone would reimburse the common shareholder for any payments made on their behalf related to the letters of credit.

CPC credit facilities

In 2022, CPC increased the capacity on its revolving credit facility to $220,000 and extended the maturity to December 15, 2024.

SUBSEQUENT EVENTS

Buffalo Atlee financing

On January 27, 2023, Buffalo Atlee entered into a credit agreement which provided up to $50,000 of variable rate debt for the construction of the wind facilities. To mitigate the interest rate risk, a swap contract was executed to convert the floating interest rate obligations to a fixed rate.

US LC facility extension

On February 28, 2023, the US LC facility was increased to $39,955, and now expires on December 23, 2024.

RESULTS OF OPERATIONS

Overview

In 2022, Capstone's EBITDA and net income were higher than in 2021. Higher EBITDA reflects:

- Higher revenue due to additional market runs at Cardinal, generally higher wind and hydro production from better resource, and higher Alberta Power Pool prices and emissions offset credit sales at Whitecourt and Claresholm as well as the addition of Riverhurst, which achieved COD in 2021;
- Higher other income from unrealized fair value changes on interest rate swaps, which rose in value due to higher long-term interest rates; partially offset by:
- Higher expenses due to higher fuel costs at Cardinal from additional market runs, higher expenses at Claresholm since 2021 COD and increased project development costs.

	For the year ended		
	Dec 31, 2022	Dec 31, 2021	Change
Revenue	255,022	222,567	32,455
Expenses	(86,891)	(68,806)	(18,085)
Other income and expenses	17,994	2,917	15,077
EBITDA	186,125	156,678	29,447
Interest expense	(46,261)	(42,695)	(3,566)
Depreciation and amortization	(96,282)	(93,901)	(2,381)
Income tax recovery (expense)	(12,234)	(3,611)	(8,623)
Net income (loss)	31,348	16,471	14,877

The remaining significant changes in net income were:

- Higher depreciation and amortization and interest expense due to Claresholm and Riverhurst having achieved COD; and
- Higher income tax expense in 2022 is primarily attributable to the difference in accounting and tax amortization claimed during the year and non-deductible fair value adjustments on financial instruments partially offset by the utilization of tax losses.

Results by Segment

Capstone's MD&A discusses the results of the power segment, as well as the corporate activities. The power segment consists of operating and development activities. The operating facilities produce electricity from wind, solar, biomass, natural gas, and hydrological resources, and are located in Ontario, Alberta, Nova Scotia, Québec, British Columbia, and Saskatchewan.

Corporate activities primarily comprise growth initiatives, capital structure expenses not specifically attributed to the facilities and costs to manage, oversee, and report on the facilities.

Revenue

Capstone's revenue is mainly driven by the generation and sale of electricity through long-term power contracts and at market rates to the Alberta Power Pool.

Revenue	For the year ended		
	Dec 31, 2022	Dec 31, 2021	Change
Wind	131,420	119,821	11,599
Solar (1)	41,233	38,688	2,545
Biomass (1)	34,871	27,666	7,205
Gas	33,933	24,796	9,137
Hydro	13,565	11,596	1,969
Total Revenue	255,022	222,567	32,455

(1) Solar and Biomass include revenue from the generation and sale of electricity at market rates and the sale of emissions offset credits.

Power generated (GWh)	For the year ended		
	Dec 31, 2022	Dec 31, 2021	Change
Wind	1,143.0	1,058.9	84.1
Solar	287.9	226.8	61.1
Biomass	185.6	191.4	(5.8)
Gas	90.2	51.5	38.7
Hydro	156.6	140.2	16.4
Total Power	1,863.3	1,668.8	194.5

Capstone's power segment earns revenue from:

- The wind facilities, in Ontario, Nova Scotia, Québec and Saskatchewan, by selling electricity in accordance with their PPAs. On a megawatt ("MW") weighted-average-basis, there are 10 years remaining on the current PPAs.
- The solar facilities, consisting of Amherstburg in Ontario, selling its electricity under a long-term PPA expiring in 2031, and Claresholm in Alberta, which sells its electricity and the associated emissions offset credits under various contracts, including a PPA expiring in 2029, into the Alberta Power Pool, and to third parties.
- Whitecourt, a biomass facility in Alberta, by selling electricity at market rates to the Alberta Power Pool. Whitecourt also earns a portion of its revenue from the sale of emissions offset credits. These are supplemented or offset by a revenue sharing agreement with Whitecourt's fuel supplier, Millar Western Forest Products Ltd. ("Millar Western"), where contractual settlements are included in other gains and losses in the consolidated statement of income.
- Cardinal, a natural gas peaking facility in Ontario, from fixed payments for providing capacity and availability to the IESO with a 2034 power contract expiry and by supplying electricity to the Ontario grid when it is profitable to do so. In addition, Cardinal receives a fixed amount (subject to escalation) to provide operational and maintenance services to Ingredion's 15MW facility.
- The hydro facilities, in Ontario and British Columbia, by selling electricity under long-term PPAs. On a MW weighted-average-basis, there are 20 years remaining on the current PPAs, with the earliest expiry in 2040.

The following table shows the significant changes in revenue from 2021:

Change	Explanations
9,707	Higher revenue from wind (excluding Riverhurst) and hydro facilities, due to higher production from resources.
9,137	Higher revenue at Cardinal due to additional market runs.
7,205	Higher revenue at Whitecourt due to higher prices and higher emissions offset credit sales, offsetting lower production.
3,861	Revenue from adding Riverhurst which reached COD on December 10, 2021.
2,627	Higher revenue from Claresholm due to higher Alberta Power Pool prices and higher emissions offset credit sales in 2022.
(82)	Various other changes.
32,455	Change in revenue.

Seasonality

Overall, the results for Capstone’s power segment fluctuate during the year because of seasonal factors that affect quarterly production of each facility. These factors include scheduled maintenance and environmental factors such as water flows, solar irradiation, wind speeds and air density, ambient temperature and humidity, which affect the amount of electricity generated. In aggregate, these factors have historically resulted in higher electricity production during the first and fourth quarters.

Expenses

Expenses consist of expenditures within the power segment relating to operating expenses and costs to develop new projects, as well as corporate business development and administrative expenses.

Expenses	For the year ended		
	Dec 31, 2022	Dec 31, 2021	Change
Wind	(26,208)	(24,198)	(2,010)
Solar	(8,460)	(4,168)	(4,292)
Biomass	(11,707)	(11,328)	(379)
Gas	(20,005)	(12,401)	(7,604)
Hydro	(4,332)	(4,271)	(61)
Power operating expenses	(70,712)	(56,366)	(14,346)
Project development costs	(6,709)	(3,944)	(2,765)
Administrative expenses	(9,470)	(8,496)	(974)
Total Expenses	(86,891)	(68,806)	(18,085)

Expenses for the operation and maintenance ("O&M") of the power facilities mainly consist of wages and benefits and payments to third party providers. Capstone's wind facilities are operated by Capstone's in-house operations and maintenance teams, except for Glen Dhu, Goulais, SkyGen, Saint-Philémon, Glace Bay, and Riverhurst, which are maintained under service agreements, typically with the original equipment manufacturers. The hydro facilities are operated and maintained under an O&M agreement. In addition, Cardinal, Whitecourt, Claresholm, and Amherstburg rely on the internal capabilities and experience of Capstone's staff. Other significant costs include fuel, transportation, insurance, utilities, land leases, raw materials, chemicals, supplies, and property taxes.

Project development costs consist of direct staff costs in 2022, professional fees, and other costs to pursue greenfield opportunities, as well as costs to explore and execute transactions in both periods. Administrative expenses are comprised of staff costs, professional fees for legal, audit, and tax, as well as certain office administration and premises costs.

The following table shows the significant changes in expenses from 2021:

Change	Explanations
(7,604)	Higher expenses at Cardinal due to additional market runs in 2022.
(4,763)	Higher operating expenses at Claresholm which reached COD on April 19, 2021.
(2,765)	Higher project development costs associated with early-stage development in 2022.
(701)	Higher operating expenses at Riverhurst which reached COD on December 10, 2021.
(379)	Higher expenses at Whitecourt due to higher fuel costs.
(1,873)	Various other changes.
(18,085)	Change in expenses.

FINANCIAL POSITION REVIEW

Overview

As at December 31, 2022, Capstone's working capital surplus was $88,979, compared with a deficit of $76,445 as at December 31, 2021, mainly resulting from refinancing the near-term debt maturities.

Capstone has adequate financial flexibility to meet liquidity needs and support further growth, including $124,897 of unrestricted cash and cash equivalents and corporate credit capacity of $148,707 available.

Capstone and its subsidiaries continue to comply with all debt covenants.

Liquidity

Working capital

As at	Dec 31, 2022	Dec 31, 2021
Power	88,638	(75,778)
Corporate	341	(667)
Working capital (equals current assets, less current liabilities)	88,979	(76,445)

Capstone's working capital was $165,424 higher than December 31, 2021 because of increases of $164,416 and $1,008 from power and corporate, respectively. The increase at power largely reflects the refinancing efforts at SLGR ($90,674), offset by 2023 debt maturities at SkyGen and Skyway 8 ($25,353), reducing the current portion of long-term debt by $61,611. It also includes higher cash and restricted cash of $57,350, higher accounts receivable of $16,989 from revenue and government funding, as well as an increase in the current portion of loans receivable of $14,921, and derivative contract assets of $11,018.

Cash and cash equivalents

As at	Dec 31, 2022	Dec 31, 2021
Power	123,108	56,494
Corporate	1,789	882
Unrestricted cash and cash equivalents	124,897	57,376

These funds are available for operating activities, capital expenditures, and future acquisitions. The $67,521 increase consists of an increase of $66,614 at power and a increase of $907 at corporate. Higher cash at power mainly reflects a $43,000 increase in Kneehill and Michichi from government funding and debt proceeds partly offset by expenses to build the projects, a $17,200 increase at CPC from an accumulation of asset distributions, and a $2,200 increase at Buffalo Atlee from government funding offset by expenses to construct the project.

Cash at the power segment is comprised of $33,602 at CPC and $89,506 at the projects, which is only periodically accessible by corporate through distributions. The power segment's cash and cash equivalents are accessible through distributions under the terms of the CPC credit facility, which allows for distributions, subject to certain conditions. In turn, CPC receives distributions from its subsidiary power assets, which are subject to the terms of their project-specific credit agreements.

In addition to these funds, the CPC revolving credit facility has available capacity of $147,658 as at December 31, 2022.

Cash flow

Capstone’s consolidated cash and cash equivalents increased by $67,521 in 2022 compared with a decrease of $13,785 in 2021. The components of the change in cash, as presented in the consolidated statement of cash flows, are summarized as follows:

For the year ended	Dec 31, 2022	Dec 31, 2021
Operating activities	117,457	119,284
Investing activities	(231,656)	(225,058)
Financing activities (excluding dividends to shareholders)	184,569	94,522
Dividends paid to shareholders	(2,849)	(2,533)
Change in cash and cash equivalents	67,521	(13,785)

Cash flow from operating activities was $1,827 lower in 2022 comprised of a $1,630 decrease from the power segment and a $197 decrease from the corporate segment. The power segment had higher contributions from the operating businesses, more than offset by changes in working capital and higher transaction costs on debt.

Cash flow used in investing activities was comparatively $6,598 higher in 2022, as 2021 included $228,624 to purchase SWNS and build Claresholm and Riverhurst. In 2022, $203,401 was used for projects under development ("PUD"), primarily to develop Wild Rose 2, and construct Buffalo Atlee, Michichi, and Kneehill, and $35,694 was used for capital assets, for both additions, including refurbishments on the Dryden hydro facility dams, as well as for settlement of 2021 payables, mainly at Claresholm and Riverhurst.

Cash flow from financing activities was $89,731 higher in 2022, in which Capstone received $80,000 cash from Class A common shareholder capital contributions and $71,270 in government funding, offset by $50,453 lower net debt proceeds and $15,150 of advances on loans receivable. The net debt proceeds in 2022 include $119,000 from refinancing SLGR, less $97,203 to repay prior project debts, plus $47,000 from financing Riverhurst, $41,500 from financing Michichi and Kneehill, and net draws of $7,000 on the CPC revolving credit facility. The remaining change reflects various scheduled repayments of project debt. In 2021, the net debt proceeds consisted of $88,600 of SWNS project debt, $41,500 of draws on the Claresholm facility, and a net draw of $7,500 on the CPC revolving credit facility, partly offset by $30,515 to refinance SkyGen and Skyway8, and scheduled repayments.

Long-term Debt

Continuity of Capstone's long-term debt for the year ended was:

	Dec 31, 2021	Additions	Repayments	Other	Dec 31, 2022
Long-term debt (1), (2) and (3)	881,949	275,560	(221,353)	—	936,156
Deferred financing fees (4)	(16,297)	(8,487)	—	4,047	(20,737)
	865,652	267,073	(221,353)	4,047	915,419
Less: current portion of long-term debt	(149,473)	—	—	61,611	(87,862)
	716,179	267,073	(221,353)	65,658	827,557

(1) The power segment has drawn $87,315 for letters of credit, as well as $40,679 which are supported by Capstone's common shareholder.
(2) Additions of $275,560 consist of SLGR project financing of $119,000, CPC revolving credit facility draws of $68,000, Riverhurst project financing of $47,000, and Michichi and Kneehill project financing of $41,500. See the "Changes in the Business" section in this MD&A for detail.
(3) Repayments of $221,353 include $61,000 on the CPC revolving credit facility, and refinancing of the GHG, SR and SLS credit facilities of $97,203, as well as scheduled repayments on the various project debt facilities.
(4) Additions consist of deferred transaction costs on the project financing of Riverhurst, SLGR, Michichi and Kneehill, the Claresholm term conversion, and CPC credit facility extension. See the "Changes in the Business" section in this MD&A for detail.

As at December 31, 2022, Capstone's long-term debt consisted of $900,656 of project debt and $35,500 for the CPC credit facilities. The current portion of long-term debt was $87,862, consisting of scheduled debt amortization and upcoming 2023 maturities of Skygen and Skyway 8 of $10,882 and $14,471, respectively. Capstone expects to repay the scheduled amortization from income generated by the power assets and is evaluating readily available options to refinance or extend the project debt maturing in the next twelve months.

CPC is subject to customary covenants, including specific limitations on leverage and interest coverage ratios. All of the power segment's project debt is non-recourse to Capstone, except for certain limited recourse guarantees provided to the lenders of the various facilities. In 2022, CPC increased the capacity on its revolving credit facility, which is now $220,000 and matures December 15, 2024.

Equity

Shareholders' equity comprised:

As at	Dec 31, 2022	Dec 31, 2021
Common shares [1]	142,270	62,270
Preferred shares [2]	72,020	72,020
Share capital	214,290	134,290
Accumulated other comprehensive income (loss)	—	5
Retained earnings	95,984	73,742
Equity attributable to Capstone shareholders	310,274	208,037
Non-controlling interests	119,040	96,129
Total shareholders' equity	429,314	304,166

(1) $80,000 of cash capital contributions from Class A common shareholder in 2022.
(2) Capstone has 3,000 publicly listed Series A preferred shares on the Toronto Stock Exchange.

Contractual Obligations

As at December 31, 2022, Capstone had outstanding contractual obligations with amounts due as follows:

	Within one year	One year to five years	Beyond five years	Total
Long-term debt [1]	125,176	522,641	579,044	1,226,861
Operating leases	5,975	23,097	76,493	105,565
Asset retirement obligations	400	—	18,701	19,101
Purchase obligations	418,796	46,568	264,110	729,474
Total contractual obligations	550,347	592,306	938,348	2,081,001

(1) Long-term debt includes principal and interest payments.

Long-term debt

- Long-term debt is discussed in the "Long-term Debt" section of this MD&A.

Operating leases

The following leases have been included in the table based on known minimum operating lease commitments:

- Capstone's operating wind facilities and wind development projects have entered into agreements to use, or the option to use, land in connection with the operation of existing and future wind facilities. Payment under these agreements is typically a minimum amount with additional payments dependent on the amount of power generated by the wind facility. The agreements can be renewed and extended as far as 2061.
- Cardinal leases the site on which it is located from Ingredion. Under the lease, Cardinal pays monthly rent. The lease extends through 2034 and expires concurrently with the Energy Savings Agreement between Ingredion and Cardinal.
- Capstone's operating solar facilities have entered into agreements to use land in connection with their operation with terms extending as far as 2060.
- The Corporation has an operating lease for the corporate office expiring in 2023.

Capstone's operating lease commitments with no minimum commitments required are:

- Agreements with the Provinces of Ontario and British Columbia for the lease of certain lands and water rights necessary for the operation of its hydro power facilities. The payments under these agreements vary based on actual power production. The terms of the lease agreements extend to 2025 and 2042.

Asset retirement obligations

Commitments associated with asset retirement obligations for Capstone's power facilities are projected to occur principally over the next 25 years.

Purchase obligations

Capstone enters into contractual commitments in the normal course of business, either directly or through its subsidiaries. These contracts include capital commitments and operations and maintenance ("O&M") agreements:

Capital commitments

- During 2022, Capstone entered into various purchase obligations, including payments to original developers, for the operation and development of the Buffalo Atlee and Wild Rose 2 wind development projects, as well as the Michichi and Kneehill solar development projects. The capital commitments related to these projects made up 90% of Capstone's purchase commitments at December 31, 2022.

O&M agreements

- Cardinal has a maintenance contract with Siemens Energy Canada Limited covering the gas turbine at Ingredion's 15MW facility.
- Capstone has several service and maintenance agreements covering the turbines in operation on various wind facilities. The agreements provide for scheduled and unscheduled maintenance and require annual minimum payments, subject to inflationary increases, as applicable.
- Capstone has an O&M agreement with Regional Power OPCO Inc. ("Regional") to operate and maintain the hydro power facilities. Regional is paid a monthly management fee and is eligible for an annual incentive fee.

Other commitments

In addition to the commitments included in the table above, Capstone has the following other commitments with no fixed minimum payments:

Power Purchase Agreements

A significant portion of the Corporation's electricity revenue is earned through long-term PPAs. The majority of these contracts include terms and conditions customary to the industry. For Cardinal's contract, the nature of commitments includes: electricity capacity; availability; and production targets. For the remaining power facilities, Capstone is not obligated to deliver electricity; however, in certain circumstances, if a facility fails to meet the performance requirements, the operating facility's PPA may be terminated after a specified period of time. For certain solar and wind projects in development, commitments include availability and product targets subsequent to achieving COD.

Management services agreements

Capstone has management services agreements with all the partially owned wind and solar facilities and development projects, including Amherst, Buffalo Atlee, Claresholm, Goulais, Kneehill, Michichi, Saint-Philémon, and SLGR. For the operating projects, these agreements are primarily for the provision of management and administration services and are based on an agreed percentage of revenue.

Wood waste supply agreement

The Whitecourt and Millar Western fuel supply agreement for wood waste includes sharing mechanisms regarding the price received for electricity and emissions offset credits sold by Whitecourt.

Energy savings agreement ("ESA")

Cardinal has an ESA with Ingredion which matures in 2034. Under the terms of the ESA, Cardinal is required to provide O&M services in respect of Ingredion's 15MW facility, and supply steam and compressed air to Ingredion for the use of its manufacturing facility. Cardinal entered into a maintenance contract with Siemens Canada Limited in connection with the operation and maintenance of the 15MW plant in order to support Cardinal's satisfaction of the O&M terms of the ESA.

Guarantees

Capstone has provided certain guarantees relating to the government funding received, as well as limited recourse guarantees on the project debt of certain wind and solar projects totaling $24,888 as at December 31, 2022.

There have been no other significant changes to the specified contractual obligations that are outside the ordinary course of business. Capstone is not engaged in any off-balance sheet financing transactions. Due to the nature of their operations, the power facilities are not expected to incur material contingent liabilities upon the retirement of assets.

Capital Expenditure Program

Capstone's power segment invested $146,447 in capital expenditures during 2022. This consisted of $208,140 of capitalized PUD, less $79,189 of government funding, plus $17,496 of capital asset additions.

Amounts capitalized to PUD in 2022 were primarily for costs to advance the Wild Rose 2 wind project ($56,102), the Buffalo Atlee wind project ($33,767), and the Michichi and Kneehill solar projects ($30,603). Amounts relating to the US development projects jointly owned with Eurowind were transferred from PUD to equity accounted investments during the year.

The government funding relates to the Michichi, Kneehill and Buffalo Atlee projects which have agreements with the government of Canada, and are eligible for funding for a portion of the capital expenditures, subject to certain conditions.

Income Taxes

In 2022, the current income tax recovery of $731 (2021 - expense of $80) primarily relates to the partial reversal of Canadian Renewable and Conservation Expense (CRCE) reserve as the claim periods expire.

Deferred income tax assets and liabilities are recognized on Capstone's consolidated statement of financial position based on temporary differences between the accounting and tax bases of existing assets and liabilities. Deferred income tax assets and liabilities are calculated on a net basis where there is a legally enforceable right of offset within the same tax jurisdictions.

Capstone’s net deferred income tax liability increased by $5,523 primarily due to the difference between accounting and tax amortization claimed during the year and non-deductible fair value adjustments on financial instruments, partially offset by the utilization of tax losses. Capstone's total deferred income tax assets of $6,328 (2021 - $176) primarily relate to unused tax losses carried forward, including recognized losses on acquisition. Deferred income tax liabilities of $98,135 (2021 - $86,460) primarily relate to the differences between amortization of intangible and capital assets for tax and accounting purposes and non-deductible fair value adjustments on financial instruments.

DERIVATIVE FINANCIAL INSTRUMENTS

Capstone has exposure to market, credit and liquidity risks from its use of financial instruments as described in note 8 financial instruments and note 9 financial risk management in the consolidated financial statements as at and for the year ended December 31, 2022. These notes contain further details on the implicit risks and valuation methodology employed for Capstone's financial instruments.

To manage the certain financial risks inherent in the business, Capstone enters into derivative contracts primarily to mitigate the economic impact of the fluctuations in interest rates or foreign exchange rates. The fair values of these contracts, as well as the Whitecourt embedded derivative included in the consolidated statement of financial position, were:

As at	Dec 31, 2022	Dec 31, 2021
Derivative contract assets	39,727	15,138
Derivative contract liabilities	(4,220)	(8,179)
Net derivative contract assets	35,507	6,959

Net derivative contract assets increased by $28,548 from December 31, 2021, due to gains of $19,365 in the statement of income and contractual settlements of $9,190 paid to Millar Western, slightly offset by losses of $7 on foreign exchange contracts included in other comprehensive income ("OCI").

Fair value changes of derivatives in the consolidated statements of income comprised:

For the year ended	Dec 31, 2022	Dec 31, 2021
Whitecourt embedded derivative	(18,992)	(13,884)
Interest rate swap contracts (1)	38,357	17,002
Gain (losses) on derivatives in net income	19,365	3,118
Foreign currency contracts in OCI	(7)	7
Gain (losses) on derivatives in comprehensive income	19,358	3,125

(1) The interest rate swap contracts include a contingent contract in anticipation of financing the Wild Rose 2 project.

The gain on derivatives includes gains from the interest rate swap contracts, resulting from generally higher interest rates during the swap periods since December 31, 2021, partially offset by a decrease in the Whitecourt embedded derivative, resulting from higher forecasted Alberta Power Pool prices and losses on foreign exchange contracts.

RISKS AND UNCERTAINTIES

Introduction

Risk is an inevitable aspect of operating any business. Decisions that balance risk exposure with intended financial rewards within risk tolerances are the responsibility of the Corporation's management under the supervision of the Board of Directors. When a risk exposure exceeds the Corporation's risk tolerance, the Corporation will, to the extent possible, take steps to eliminate, avoid, reduce or transfer such risk.

The Corporation recognizes the importance and benefits of timely identification, assessment and management of risks that may impact the Corporation's ability to achieve its strategic and financial objectives. In this respect, the Corporation is committed to prudent risk management practices within the context of an enterprise risk management ("ERM") framework. The Corporation maintains a registry of risks that is reviewed by management and the Board of Directors at least quarterly. The Corporation also undertakes an annual comprehensive review of its ERM framework and practices to continuously improve its risk management practices.

What follows is a description of the Corporation's key risk governance and risk processes to support achievement of strategic and financial performance objectives.

Risk Management Principles and Governance

The Corporation's ERM framework is based on five core principles which establish the culture and tone that guide risk management decisions. Risk management is everyone's responsibility, about decision-making, embedded within existing management routines, about people and culture, and specific to each business unit. The Corporation's interpretation of the ERM framework includes the following hierarchy of responsibilities:

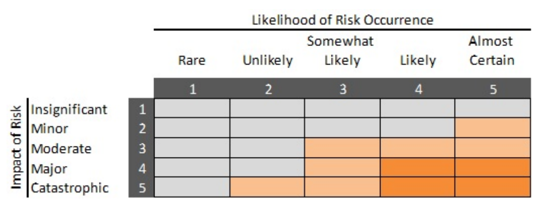
- **Board of Directors and Audit Committee** have overall governance responsibility for setting and overseeing management's implementation of the risk management policy.
- **Internal Audit** reports to the Audit Committee and is responsible for reviewing management's practices to manage risks in specific areas agreed from time to time between management and the Audit Committee.
- **Senior Management** is responsible for ensuring the implementation of the ERM framework to all applicable activities and reporting to the Audit Committee.
- **Business Units** are responsible for ensuring the application of a risk management framework to identify, monitor and report risk.
- **Risk Owners** are responsible for the identification and day-to-day management and oversight of risks in their assigned area.

Risk Management Processes

The Corporation's framework relies on the following six key ERM processes to integrate risk management activities with strategic and operational planning, decision-making and day-to-day oversight of business activities.

- **Risk identification** is the process of identifying and categorizing risks that could impact the Corporation's objectives.
- **Risk assessment** is the process of determining the likelihood and impact of the risk. The Corporation uses a five-point rating scale for likelihood and impact.
- **Risk prioritization** is the process of ranking risks as high, medium or low based on the net risk rating as described in the diagram below.
- **Risk management** responses are measures taken to optimize the Corporation's net risk exposure within overall tolerance to achieve the desired balance between risk and reward.
- **Monitoring and reporting** are the processes of assessing the effectiveness of risk management responses.
- **Training and support** ensure that personnel tasked with risk management responsibilities have sufficient knowledge and experience to complete their risk management obligations.

The Corporation's risk management approach is comprehensive. It combines the experience and specialized knowledge of individual business segments and corporate oversight functions as well as various analytic tools and methodologies, including a risk matrix (see chart to the right), to assist the Corporation in regularly assessing and updating the net exposure (including mitigants) of each known material risk facing the Corporation in the following four risk categories: operational; strategic; financial; and legal and regulatory. The Corporation's assessment process prioritizes risks.



Managing Risk

The Corporation requires that risk assessments (which encompass operational, strategic, financial and legal and regulatory risks) be performed for the power facilities and at the corporate level.

In addition to these risks, there are numerous other risk factors, many of which are beyond the Corporation's control and the effects of which can be difficult to predict, that could be material to investors or cause the Corporation's results to differ significantly from its plans, objectives and estimates. For a more comprehensive list and description of the risks affecting the Corporation refer to the "Risk Factor" section of the Corporation's most recently filed Annual Information Form, as supplemented by risk factors contained in any of the following documents filed by the Corporation with securities commissions or similar authorities in Canada after the date of this annual MD&A, which are available on SEDAR at www.sedar.com: material change reports; business acquisition reports; interim financial statements; and interim management's discussion and analysis.

Risks Related to the Corporation and its Businesses

Risks that have materially affected the Corporation's financial statements, or that have a reasonable likelihood of affecting them materially in the future, are presented in the table below.

Additionally, in February 2022, Russia commenced a military invasion of Ukraine. While the direct impact of the conflict is currently in eastern Europe, the potential global impact of these actions is unclear and may have the effect of heightening the Corporation's risk factors, including with respect to foreign exchange fluctuations, supply chain matters, completion of development projects (including because of commodity price or other market inflationary factors), and cybersecurity. While it is not currently possible to estimate the length and severity of these events, the Corporation's existing operations have not been materially impacted.

The Corporation continues to monitor developments and develop mitigation measures to manage impacts on its businesses and development projects. Risks specific to Capstone's power segment, as well as at the corporate-level, are included.

Risk and Description	Impact	Monitoring and Mitigation
Operational Risks		
Development and capital expenditure risks concern the construction of new Canadian or US power generation facilities in line with the requirements of awarded PPAs and regulatory requirements and planned maintenance capital expenditures required on existing facilities to maintain operations.	Delays and cost overruns in the construction of new facilities, failure to meet regulatory standards or in performing planned maintenance or refurbishments could lead to lower cash flows, and where PPA requirements are not met, cancellation of the PPA resulting in lost revenue and impairment of any capitalized costs for the facility.	Capstone has professional project management processes and uses experienced contractors and advisors. Capstone contracts include a combination of incentives, liquidated damages, or fixed-pricing to align suppliers interests to project results.
Production risk concerns the dependence of power production on adequate resources such as wind, sunlight and water flow as well as fuel supply and the availability of each of the sites.	Low availability, inadequate wind, sunlight, water flow, wood waste, or gas leads to lower power production which results in lower revenues.	Capstone maintains facilities in quality condition to maximize availability for power generation when renewable resources are available and strongest. Capstone also seeks to diversify its portfolio of businesses to mitigate the dependency on a single resource or geography.
PPA renewal risk concerns the ability to recontract expiring PPAs on economically feasible terms and failing to align with the useful lives of the power facilities.	If Capstone is unsuccessful or delayed in recontracting its expiring PPAs, it would cause Capstone to fall short of its financial forecasts, as revenue short-falls could result from operating in merchant or other markets.	Capstone mitigates by starting negotiations with counterparty(ies) well before contract expiry, considering impacts of other stakeholders and working to ensure the broader benefits of the facility are considered in the process. In addition, company-wide mitigation is provided by maintaining a diversified portfolio to reduce the impact of any one facility to the overall consolidated financial results.
Information technology and data security risk concerns the ability to develop, maintain and manage complex information technology systems which are used to operate and monitor its facilities and other business systems.	Cyber attacks or unauthorized access to information technology systems may lead to production disruptions and system failures that, amongst other things, may result in lower production and revenues.	Capstone follows a recognized IT framework which includes security and recovery plans. In addition, certain sites are compliant with North American Electric Reliability Corporation standards.
Succession and human resources retention risks concern the ability to replace senior management and attract, retain and motivate key staff.	Inability to retain or replace key staff or senior management could prevent or delay Capstone from executing its business strategy, thereby causing Capstone to fall short of its financial forecasts.	Capstone maintains a succession plan and provides career and development opportunities to its employees.
Strategic Risks		
Competition risk concerns the ability to source and complete attractive investment opportunities that support Capstone's growth initiatives within the power segment.	Inability to source and execute attractive growth opportunities may lead to lower long-term cash flow as businesses operating under finite term contracts experience uncertainty about their longer term cash flow potential.	Management periodically reviews and updates strategy according to market conditions and developments.
Financial Risks		
Expense management risk concerns unexpected non-recoverable increases in operating and administrative costs.	Unanticipated increases in costs could result in lower earnings and cash flow.	Capstone monitors costs against budgets and considers asset lifecycle costs in decision making.
Forecasting risk concerns the accuracy of projections for results from operations due to error or unpredictable economic, market and specific business factors.	Volatility of financial forecasts increases liquidity reserve requirements to pay expenses, reducing cash flows.	Capstone targets businesses which have inherently predictable financial results from operations. Capstone maintains adequate levels of liquidity to manage during periods of uncertainty.
Taxation risk concerns higher income and other taxes attributable to adverse legislation changes, both in the US and domestic, including tax rate increases, or interpretations by tax authorities on audit.	Higher taxation results in both lower income and cash flow available.	Capstone minimizes exposures to adverse tax rulings by choosing structures that adhere to taxation regulations, are commonly used in practice and wherever practical supported by opinions of external advisers. In addition, Capstone monitors the trends and policies of taxation authorities in the jurisdictions where its businesses operate.
Foreign exchange fluctuations risk concerns volatility of the Canadian dollar relative to foreign currencies.	Volatility in exchange rates could negatively impact cash flows, value of investments and operating results, which are denominated in Canadian dollars.	Capstone minimizes exposure to foreign exchange fluctuations through hedging instruments where economically feasible.

Risk and Description	Impact	Monitoring and Mitigation
Financing risk concerns the ability to access timely and cost effective debt or equity to support the development and construction of power facilities, business acquisitions and replace maturing debt.	Inability to access cost-effective debt or equity could result in higher interest costs, lower cash flow or liquidity difficulties. For an acquisition, this could also prevent Capstone from realizing a growth opportunity.	Capstone maintains relationships with multiple financial institutions that have the resources to provide some or all financing requirements. In addition, most existing project debt amortizes over the term of the PPAs to minimize refinancing requirements and debt maturities are staggered.
Legal and Regulatory Risks		
Contract and permit compliance risk concerns the ability to operate Capstone's power businesses within the allowances of an increasing number of requirements.	Failure to comply with contracts and permits can impact Capstone's power contracts, debt facilities, and other agreements, which can lead to lower cash flow from the existing businesses by reducing revenue or increasing costs to restore the ability to operate at capacity.	Capstone maintains its contracts, permits and licenses, works with knowledgeable contractors, engages industry associations and regulatory bodies and responds to adverse findings promptly to minimize the impact.

ENVIRONMENTAL, HEALTH AND SAFETY REGULATION

Capstone's power facilities (collectively the "Facilities") hold all material permits and approvals required for their operation and maintenance. All assets are managed to comply with health, safety and environmental ("HSE") laws in addition to Capstone's corporate and facility-specific HSE policies.

The Facilities are subject to robust and stringent environmental, health and safety regulatory regimes, which focus on:

- Commitment to identify, eliminate, mitigate and manage health and safety issues for all workers, visitors, nearby landowners and other personnel at each of the Facilities;
- Regulatory compliance of emissions and discharges related to air, noise, water, and sewage;
- Proper storage, handling, use, transportation and distribution of dangerous goods and hazardous and residual materials including the prevention of releases of these materials to the environment;
- Management of construction and operation related permits to ensure compliance with all HSE regulations; and
- Protection of the natural and built environment.

Climate Change, Greenhouse Gases and Policy Changes

Due to the emission of greenhouse gases, such as carbon dioxide ("CO_2") and nitrous oxides ("NO_x"), some of the Facilities, specifically the Cardinal and Whitecourt facilities, have an ongoing operational impact on the environment. All Facilities comply in all material respects with the applicable Canadian and provincial legislation and guidelines regarding greenhouse gases and other emissions. Capstone monitors the potential impact of future changes to environmental legislation and guidelines by remaining diligent in the operation of the Facilities, including implementing stringent policies and procedures to prevent the contravention of permits and approvals. The Canadian federal government ratified the Paris Accord, negotiated under the United Nations Framework Convention on Climate Change, in the fall of 2016. Pursuant to the Paris Accord, the parties committed, in a non-binding manner, to accelerate actions and investments needed to limit global average temperatures to below 2°C above pre-industrial levels and to pursue efforts to limit the increase to 1.5°C.

In late 2016, Canada and the majority of its provinces agreed to the Pan-Canadian Framework on Clean Growth and Climate Change ("Framework"). Pursuant to the Framework, provincial jurisdictions have the flexibility to implement a variety of carbon regimes ranging from price-based regimes involving a carbon tax, to performance-based emissions regimes involving emissions intensity and cap and trade. As a regulatory backstop, the federal government has also enacted the Greenhouse Gas Pollution Pricing Act ("GGPPA"), which introduces a carbon pricing regime to those provinces that fail to implement adequate provincial measures. Pursuant to the GGPPA, the minimum price for carbon was $50/tonne in 2022 and is $65/tonne in 2023. As set out in Schedule 4 of the GGPPA, the carbon price will increase by $15/tonne per year over the next seven years, resulting in a carbon price of $170/tonne in 2030.

Saskatchewan, Ontario and Alberta all launched constitutional challenges to the GGPPA. On March 25, 2021, the Supreme Court of Canada ("SCC") rendered its decision on the constitutional challenges. The SCC upheld Canada’s ability to implement minimum pricing standards for greenhouse gas emissions as a national backstop under the GGPPA in the event that a provincial carbon pricing program does not meet the GGPPA's stringency requirements. The Corporation continues to monitor the federal government's assessment of alternative carbon pricing systems for compliance with the GGPPA, while anticipating more carbon pricing consistency in provinces which do not have programs that meet the GGPPA's equivalency test.

In Alberta, under the Technology Innovation and Emissions Reduction ("TIER") Regulation, regulated facilities that emit 100,000 tonnes or more of greenhouse gases per year must meet provincial greenhouse gas emissions thresholds. If they cannot do so through operational improvements, they can purchase emission offsets from qualified offset facilities, purchase emission performance credits from other large emitters, or contribute to the Alberta TIER fund. To ensure consistency with the provisions of the GGPPA, the Alberta government has announced the TIER fund price will increase in a manner consistent with the GGPPA for the years 2023 to 2030. In 2023, the price of the Alberta TIER fund will increase to $65/tonne. Capstone's operating Alberta-based wind and solar development projects are all eligible to produce valid emission offsets under TIER, including Claresholm and Whitecourt, which produced emission offsets in the current year.

In 2018, Ontario revoked its cap and trade program, therefore subjecting it to the provisions of the GGPPA. In 2019, Ontario introduced an Emissions Performance Standards ("EPS") program which applies to greenhouse gas emissions from large industrial emitters. On September 20, 2020, the federal government accepted Ontario's EPS program as an alternative to the federal backstop. In October 2021 the Ontario government made regulatory amendments to support the transition from the federal system to the Ontario EPS effective January 1, 2022. Although Ontario previously indicated it intended to develop an offset trading program, in December of 2022 it confirmed nothing would be developed in the short term. It is currently unclear if and when Ontario will develop an offset trading system as part of its EPS.

Cardinal

There is currently no restriction on the amount of CO_2 that the Cardinal facility may emit, although the facility is required to report its CO_2 emissions under various federal and provincial regulations. Environmental regulations in Ontario also provide for, among other things, the reporting, allocation and retirement of NO_x emissions. NO_x emissions from Cardinal's generating equipment are lower than the levels mandated by legislation.

Whitecourt

The Whitecourt facility uses biomass combustion technology to convert the energy content in wood waste into electricity. Biomass is generally considered to be carbon-neutral as the amount of CO_2 arising from combustion is equal to what would be emitted if the biomass were to decompose naturally. As a result, electricity generated from biomass is regarded as an environmentally friendly form of power generation. The Whitecourt facility is subject to limits governing the emissions of carbon monoxide, NO_x and particulates in accordance with the facility's Environmental Approval. Average annual emission levels at the Whitecourt facility are below its levels of permitted emissions. The Whitecourt facility is also subject to certain federal and provincial greenhouse gas reporting requirements and is in compliance with these requirements.

Hydro Facilities

Capstone's hydro facilities do not produce greenhouse gases. However, their operations are governed by water management plans and/or water licenses, which specify the hydrological conditions during which production may occur.

Wind and Solar Facilities

Capstone's wind and solar facilities do not generate greenhouse gases.

Further Information

Further information regarding Environmental, Safety and Health Regulations matters is contained in the Corporation's Annual Information Form (which is available under the Corporation's profile on www.sedar.com).

RELATED PARTY TRANSACTIONS

Capstone's 2022 related party transactions and balances are comprised of transactions with iCON Infrastructure LLP and subsidiaries ("iCON") and compensation to key management.

Shared Service Arrangement with iCON

Fees earned from iCON Infrastructure North America Inc. ("iCON NA"), a subsidiary of iCON, under a shared service arrangement, are reported in the consolidated statements of income as an administrative expense recovery. During 2022, Capstone earned fees of $192 from iCON NA (2021 - $235).

Contributions and Credit Support from iCON

Capstone's Class A common shareholder contributed $80,000 in cash in 2022.

On September 12, 2022, the Class A common shareholder provided letters of credit issued to the benefit of Capstone under a financing and reimbursement agreement. Capstone reimburses the common shareholder for payments made on its behalf, including fees and draws on the letters of credit. For the year ended December 31, 2022, Capstone reimbursed normal course fees of $116. As at December 31, 2022, the balance of outstanding letters of credit is $40,679 to support various development projects.

Compensation of Key Management

Key management includes the Corporation's directors, Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Compensation awarded to key management consisted of salaries, directors' fees, short-term employee benefits and long-term incentive plans. Key management compensation is described in note 26 related party transactions in the consolidated financial statements for the year ended December 31, 2022.

Linking Management Compensation to Performance

Compensation plays an important role in achieving short- and long-term business objectives that ultimately drive the Corporation’s business success in alignment with long-term shareholder goals. The objectives of the Corporation's compensation program are to:

- Attract and retain highly qualified employees with a history of proven success;
- Align the interests of employees with shareholders’ interests and with the execution of the Corporation’s business strategy;
- Establish performance goals that, if met, are expected to improve long-term shareholder value; and
- Tie compensation to those goals and provide meaningful rewards for achieving them.

Corporate performance targets are set each year to provide management with an incentive to exceed annual budgeted financial results and other business performance measures and are therefore aligned with shareholder interests.

The following table summarizes the link between the Corporation's executive and senior officer forms of compensation and performance:

	Salary	Short-term incentive plan ("STIP")	Share appreciation rights ("SAR") plan
Description	Salary is a fixed component of compensation that provides income certainty by establishing a base level of compensation for executives fulfilling their roles and responsibilities.	The STIP provides the possibility of an additional annual cash award based on the achievement of corporate and individual goals.	Capstone has a share appreciation rights ("SAR") plan, which is tied to long-term growth to motivate and retain executives on a long-term basis. The awards will be paid in cash after meeting certain vesting conditions.
Purpose	To attract and retain qualified executives.	To motivate, attract and retain qualified executives.	To reward long-term performance and align interests of executives with security holders.
Link to performance	No direct link.	A significant portion of this award is based on actual business performance against Capstone's internal performance measures.	The SAR is directly linked to the long-term increase in the Corporation's value upon a sale transaction.

For a comprehensive understanding of Capstone's compensation program refer to the "Compensation Discussion and Analysis" section of the Corporation's most recently filed AIF.

SUMMARY OF QUARTERLY RESULTS

The following table provides a summary of the previous eight quarters of Capstone’s financial performance.

	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	76,261	59,624	59,937	59,200	64,120	47,788	56,480	54,179
EBITDA	42,956	33,604	46,367	63,198	38,674	29,799	34,334	53,871
Net income (loss) (1)	2,193	(2,281)	5,854	19,342	2,559	(5,262)	(3,175)	14,988
Preferred dividends	694	694	694	694	694	613	613	613

(1) Net income (loss) attributable to the common shareholders of Capstone, which excludes non-controlling interests.

FOURTH QUARTER HIGHLIGHTS

	Three months ended	
	Dec 31, 2022	Dec 31, 2021
Revenue	76,261	64,120
Operating expenses	(17,971)	(16,931)
Administrative expenses	(2,936)	(3,156)
Project development costs	(1,945)	(625)
Equity accounted income (loss)	(328)	—
Interest income	1,308	292
Other gains and (losses), net	(10,789)	(4,912)
Foreign exchange gain and (losses)	(644)	(114)
Earnings before interest, taxes, depreciation and amortization	42,956	38,674
Interest expense	(12,573)	(11,401)
Depreciation of capital assets	(20,663)	(20,250)
Amortization of intangible assets	(3,494)	(3,423)
Earnings (loss) before income taxes	6,226	3,600
Income tax recovery (expense)		
Current	822	(214)
Deferred	(3,176)	(280)
Total income tax recovery (expense)	(2,354)	(494)
Net income (loss)	3,872	3,106
Net income (loss) attributable to:		
Shareholders of Capstone	2,193	2,559
Non-controlling interest	1,679	547
	3,872	3,106

In the fourth quarter of 2022, Capstone's EBITDA and net income were higher than in 2021. Higher quarterly net income reflects:

- Higher revenue due to added market runs at Cardinal, the addition of Riverhurst, which achieved COD December 10, 2021, higher overall wind production from better resource, and higher Alberta Power Pool prices and emissions offset credit sales at Whitecourt and Claresholm; and
- Higher interest income due to increasing interest rates and higher average cash balances; partially offset by
- Higher project development costs;
- Higher interest expense and depreciation due by adding Riverhurst;
- The addition of equity accounted investments on June 7, 2022; and
- Lower deferred income tax expense is primarily attributable to non-deductible fair value adjustments on financial instruments as well as utilization of tax losses.

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Significant Changes in Accounting Standards

The consolidated financial statements have been prepared in accordance with IFRS and are consistent with policies for the year ended December 31, 2021. Refer to note 2 of the December 31, 2022 consolidated financial statements for a summary of significant accounting policies.

Future Accounting Changes

The International Accounting Standards Board ("IASB") has not issued any significant accounting changes that impact the Corporation. Capstone is evaluating the impact of the narrow-scope amendments to IAS 1 on the Corporation. The amendments clarify how liabilities are classified based on the conditions with which an entity must comply within twelve months after the reporting period, and are effective for annual reporting periods beginning on or after January 1, 2024.

Capstone continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements.

Accounting Estimates

The consolidated financial statements require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies. The following accounting estimates included in the preparation of the consolidated financial statements are based on significant estimates and judgments, which are summarized as follows:

Area of Significance	Critical Estimates and Judgments [1]
Capital assets, projects under development and intangible assets:	
• Purchase price allocations	• Initial fair value of net assets.
• Depreciation on capital assets	• Estimated useful lives and residual value.
• Amortization on intangible assets	• Estimated useful lives.
• Asset retirement obligations	• Expected settlement date, amount and discount rate.
• Impairment assessments of capital assets, projects under development and intangible assets	• Future cash flows and discount rate.
Deferred income taxes	• Timing of reversal of temporary differences, tax rates and current and future taxable income.
Financial instruments and fair value measurements	• Forward Alberta Power Pool prices, volatility, credit spreads and production projections. • Future cash flows and discount rate.

(1) The COVID-19 outbreak and the 2022 Russian invasion of Ukraine have not changed Capstone's method of calculation for its critical estimates and judgments.

Management's estimates and judgments were based on historical experience, trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could materially differ from those estimates.

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Capstone's CEO and CFO are required by the various provincial securities regulators to certify annually that they have designed, or caused to be designed, Capstone's disclosure controls and procedures, as defined in the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), and that they have evaluated the effectiveness of the presence and function of these controls and procedures in the applicable period. Disclosure controls are those controls and other procedures that are designed to provide reasonable assurance that the relevant information that Capstone is required to disclose is recorded, processed and reported within the time frame specified by such securities regulators.

Capstone's management, under the supervision of and with the participation of the CEO and CFO, has designed internal controls over financial reporting, as defined in NI 52-109. The purpose of internal controls over financial reporting is to provide reasonable assurance regarding the reliability of Capstone's financial reporting, in accordance with IFRS, focusing in particular on controls over information contained in the audited annual and unaudited interim consolidated financial statements. The internal controls are not expected to prevent and detect all misstatements due to error or fraud. Consistent with the prior year, Capstone uses the 2013 version of Committee of Sponsoring Organizations (COSO) internal control framework.

The CEO and CFO have concluded that Capstone's disclosure controls and procedures were effective as at December 31, 2022 to ensure that information required to be disclosed in reports that Capstone files or submits under Canadian securities legislation is recorded, processed, summarized and reported within applicable time periods.

As at December 31, 2022, Capstone's management had assessed the effectiveness of Capstone's internal control over financial reporting using the criteria set forth by COSO of the Treadway Commission in Internal Control – Integrated Framework (2013). Based on this assessment, management has determined that Capstone's internal control over financial reporting was effective as at December 31, 2022.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and other financial information contained in this annual report have been prepared by management. It is management's responsibility to ensure that sound judgment, appropriate accounting policies and reasonable estimates have been used to prepare this information and that the consolidated financial statements are in accordance with International Financial Reporting Standards.

Management is also responsible for designing, maintaining and testing a system of internal controls over the financial reporting processes. Internal controls have been designed to provide reasonable assurance that the financial records are reliable, accurate and form a proper basis for the preparation of the consolidated financial statements. As of December 31, 2022, management reviewed and tested the internal controls over financial reporting and concluded that they were effective to provide reasonable assurance over the consolidated financial statements.

The Audit Committee of the Board of Directors, consisting entirely of independent directors, is responsible for reviewing the consolidated financial statements with management and the external auditors and reporting to the Board of Directors. The Audit Committee is responsible for retaining the services of the independent auditor and for renewing the auditor's mandate, which is subject to Board of Directors' review and shareholders' approval.

The independent auditor, PricewaterhouseCoopers LLP, is responsible for conducting an examination in accordance with Canadian generally accepted auditing standards to express an opinion on whether the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The report of PricewaterhouseCoopers LLP, which outlines the scope of its examination and its opinion on the consolidated financial statements, appears on the following pages.

David Eva
Chief Executive Officer

Andrew Kennedy
Chief Financial Officer

Toronto, Canada
March 9, 2023

Independent auditor's report

To the Shareholders of Capstone Infrastructure Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Capstone Infrastructure Corporation and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of Whitecourt embedded derivative *Refer to note 2 – Summary of Significant Accounting Policies and note 8 – Financial Instruments to the consolidated financial statements.*	Our approach to addressing the matter included the following procedures, among others: • With the assistance of professionals with specialized skill and knowledge in the field of valuation, developed an independent point estimate of the fair value of the

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Key audit matter	How our audit addressed the key audit matter
On March 2, 2015, Whitecourt Power Limited Partnership ("Whitecourt"), a wholly owned subsidiary of the Company, entered into a fuel supply agreement with Millar Western for 15 years, which is extendable to 20 years. The agreement, which was effective on January 1, 2015, includes power price support and revenue sharing mechanisms that reduce Whitecourt's exposure to merchant price risk in Alberta. The price support and revenue sharing mechanisms are an embedded derivative that is measured at fair value. The carrying value of the Whitecourt embedded derivative contract liability as at December 31, 2022 was $3,819 thousand which consists of $1,347 thousand fair value liability and $2,472 thousand of amortized contra-asset. The determination of the fair value of the embedded derivative requires the use of option pricing models involving significant judgment based on management's estimates and assumptions, including the forward Alberta Power Pool prices, volatility, credit spreads and production projections. We considered this a key audit matter due to the significant judgments made by management when determining the fair value of the Whitecourt embedded derivative and the high degree of complexity in assessing audit evidence related to the estimates and assumptions made by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.	embedded derivative based on assumptions applied by management. – Evaluated the reasonableness of significant assumptions, which included the following: ○ Compared the forward Alberta Power Pool prices, volatility and credit spreads to external market data. ○ Compared production projections to current and past performance of Whitecourt. • Tested the underlying data used in developing the independent point estimate. • Compared the independent point estimate to management's estimate to evaluate the reasonableness of management's fair value of the embedded derivative.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michael Eric Clarke.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 9, 2023

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	Dec 31, 2022	Dec 31, 2021
Current assets			
Cash and cash equivalents	4	124,897	57,376
Restricted cash	4	28,615	37,879
Accounts receivable	5	47,890	30,916
Other assets	6	5,247	5,599
Current portion of loans receivable	7	14,921	—
Current portion of derivative contract assets	8	11,028	10
		232,598	131,780
Non-current assets			
Loans receivable	7	21,567	10,230
Derivative contract assets	8	28,699	15,128
Equity accounted investments	10	6,492	—
Capital assets	11	954,922	1,022,361
Projects under development	12	162,018	38,530
Intangible assets	13	137,811	151,286
Deferred income tax assets	14	6,328	176
Total assets		1,550,435	1,369,491
Current liabilities			
Accounts payable and other liabilities	15	53,976	55,405
Current portion of derivative contract liabilities	8	401	2,143
Current portion of lease liabilities	16	1,380	1,204
Current portion of long-term debt	17	87,862	149,473
		143,619	208,225
Long-term liabilities			
Derivative contract liabilities	8	3,819	6,036
Deferred income tax liabilities	14	98,135	86,460
Lease liabilities	16	35,309	36,425
Long-term debt	17	827,557	716,179
Liability for asset retirement obligation	18	12,682	12,000
Total liabilities		1,121,121	1,065,325
Equity attributable to shareholders' of Capstone		310,274	208,037
Non-controlling interest	20	119,040	96,129
Total liabilities and shareholders’ equity		1,550,435	1,369,491
Commitments and contingencies	25		
Subsequent events	28		

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	Equity attributable to shareholders of Capstone				
		Share Capital	AOCI (1)	Retained Earnings (Deficit)	NCI (2)	Total Equity
Balance, December 31, 2020		134,290	(717)	67,233	96,850	297,656
Other comprehensive income (loss)		—	722	—	688	1,410
Net income (loss) for the period		—	—	9,110	7,361	16,471
Dividends declared to preferred shareholders of Capstone (3)	19	—	—	(2,601)	—	(2,601)
Dividends declared to NCI	20	—	—	—	(5,818)	(5,818)
Convertible debenture repayments (4)	20	—	—	—	(3,714)	(3,714)
Contributions from NCI (5)	20	—	—	—	762	762
Balance, December 31, 2021		134,290	5	73,742	96,129	304,166
Capital contribution	19	80,000	—	—	—	80,000
Net income (loss) for the period		—	(5)	25,113	6,240	31,348
Dividends declared to preferred shareholders of Capstone (3)	19	—	—	(2,871)	—	(2,871)
Deferred tax recovery on transaction with NCI		—	—	—	2,385	2,385
Convertible debenture repayments (4)	20	—	—	—	(1,150)	(1,150)
Dividends declared to NCI	20	—	—	—	(3,668)	(3,668)
Contributions from NCI (5)	20	—	—	—	19,104	19,104
Balance, December 31, 2022		214,290	—	95,984	119,040	429,314

(1) Accumulated other comprehensive income (loss) ("AOCI").
(2) Non-controlling interest ("NCI").
(3) Dividends declared to preferred shareholders of Capstone include current and deferred income taxes recovery of $95 (2021 - recovery of $14).
(4) Repayments are to the holder of the convertible debenture related to the GHG Wind Development LP, SR Wind Development LP and SLS Wind Development LP wind facilities prior to the conversion from debt to equity by the debenture holder. Refer to Note 3.
(5) Includes contributions from Sawridge First Nation ("Sawridge") to Buffalo Atlee, Michichi, and Kneehill.

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

	Notes	For the year ended Dec 31, 2022	Dec 31, 2021
Revenue	22	255,022	222,567
Operating expenses	23	(70,712)	(56,366)
Administrative expenses	23	(9,470)	(8,496)
Project development costs	23	(6,709)	(3,944)
Equity accounted income (loss)	10	(695)	—
Interest income	8	3,113	998
Other gains and (losses), net	24	14,967	2,065
Foreign exchange gain (loss)	8	609	(146)
Earnings before interest expense, taxes, depreciation and amortization		186,125	156,678
Interest expense	8	(46,261)	(42,695)
Depreciation of capital assets	11	(82,807)	(80,346)
Amortization of intangible assets	13	(13,475)	(13,555)
Earnings before income taxes		43,582	20,082
Income tax recovery (expense)			
Current		731	(80)
Deferred		(12,965)	(3,531)
Total income tax recovery (expense)	14	(12,234)	(3,611)
Net income and total comprehensive income (loss)		31,348	16,471
Attributable to:			
Shareholders of Capstone		25,108	9,110
Non-controlling interest	20	6,240	7,361
		31,348	16,471

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the year ended Dec 31, 2022	Dec 31, 2021
Gains on financial instruments designated as cash flow hedges (1)		—	1,410
Other comprehensive income (loss)		—	1,410
Net income (loss)		31,348	16,471
Total comprehensive income (loss)		31,348	17,881
Comprehensive income (loss) attributable to:			
Shareholders of Capstone		25,108	9,832
Non-controlling interest	20	6,240	8,049
		31,348	17,881

(1) Net of tax expense for 2022 of nil (2021 - $2).

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the year ended Dec 31, 2022	Dec 31, 2021 [1]
Operating activities:			
Net income (loss)		31,348	16,471
Deferred income tax expense	14	12,965	3,531
Depreciation and amortization		96,282	93,901
Non-cash other gains and (losses), net		(23,016)	(4,003)
Transaction costs on debt		(8,487)	(3,488)
Amortization of deferred financing costs and non-cash financing costs		4,648	3,422
Equity accounted (income) loss		695	—
Change in non-cash working capital and foreign exchange		3,022	9,450
Total cash flows from operating activities		117,457	119,284
Investing activities:			
Investment in projects under development	12	(203,401)	(108,687)
Investment in capital assets	11	(35,694)	(88,922)
Contributions to equity accounted investments	10	(3,885)	—
Purchase of subsidiary	3	(1,242)	—
Decrease in restricted cash		9,264	7,566
Proceeds from partial sale of subsidiary	10	3,302	—
Investment in intangible assets	13	—	(31,015)
Advances on loans receivable to investee	7	—	(4,000)
Total cash flows used in investing activities		(231,656)	(225,058)
Financing activities:			
Proceeds from issuance of long-term debt	17	275,560	241,115
Proceeds from Class A common shareholder capital contribution		80,000	—
Proceeds from government funding		71,270	—
Proceeds received for repayment of loans to partner	7	229	—
Repayment of long-term debt		(221,353)	(136,455)
Advances on loans receivable to partner	7	(15,150)	—
Dividends paid to non-controlling interests	20	(3,668)	(5,818)
Dividends paid to preferred shareholders		(2,849)	(2,533)
Lease principal payments		(1,169)	(606)
Convertible debenture repayments	20	(1,150)	(3,714)
Total cash flows from financing activities		181,720	91,989
Increase (decrease) in cash and cash equivalents		67,521	(13,785)
Cash and cash equivalents, beginning of year		57,376	71,161
Cash and cash equivalents, end of year		124,897	57,376
Supplemental information:			
Interest paid		41,253	39,639
Taxes paid		1,035	1,415

(1) Refer to Note 2.

See accompanying notes to these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. CORPORATE INFORMATION

Capstone is incorporated in British Columbia, domiciled in Canada, and located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. All of Capstone's Class A common shares are owned by Irving Infrastructure Corp. ("Irving"), a subsidiary of iCON Infrastructure Partners III, LP ("iCON III"), a fund advised by London, UK-based iCON Infrastructure LLP ("iCON"), who is the ultimate parent. Capstone Infrastructure Corporation and its subsidiaries' (together the "Corporation" or "Capstone") mission is to to drive the energy transition forward through creative thinking, strong partnerships, and a commitment to quality and integrity in how it does business. As at December 31, 2022, Capstone develops, owns, and operates clean and renewable energy projects across North America with an approximate net installed capacity of 774 megawatts across 29 facilities in Canada, including wind, solar, biomass, hydro, and natural gas power plants.

All amounts are in Canadian thousands of dollars or thousands of share amounts unless otherwise indicated.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are used in the preparation of these consolidated financial statements.

Basis of Preparation

Statement of compliance

The consolidated financial statements of Capstone have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 9, 2023.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial instruments, which are measured at fair value as explained in the accounting policies set out below and on a going concern basis of accounting. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Consolidation

These consolidated financial statements are primarily made up of the assets, liabilities and results of operations of the Corporation's subsidiaries. Subsidiaries are all entities over which Capstone has control. Capstone controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The following table lists the significant subsidiaries of the Corporation which are accounted for on a consolidated basis:

Name of entity	Principal place of business and country of incorporation	Ownership at December 31, 2022	2021	Principal activity
Capstone Power Corp. ("CPC")	Canada	100%	100%	Power holding company
Claresholm Solar LP ("Claresholm")	Canada	51%	51%	Power generation
Helios Solar Star A-1 Partnership ("Amherstburg")	Canada	100%	100%	Power generation
SLGR Wind LP ("SLGR") (1)	Canada	51%	100%	Power generation
SWNS Wind LP ("SWNS") (2)	Canada	100%	100%	Power generation
Chi-Wiikwedong Holdings LP	Canada	100%	100%	Power holding company
Chi-Wiikwedong LP ("Goulais")	Canada	51%	51%	Power generation
Glen Dhu Wind Energy LP ("Glen Dhu")	Canada	100%	100%	Power generation
MPT Hydro LP ("Hydro")	Canada	100%	100%	Power generation
Erie Shores Wind Farm Limited Partnership ("Erie Shores")	Canada	100%	100%	Power generation
Grey Highlands Clean Energy Development LP ("Grey Highlands Clean")	Canada	100%	100%	Power generation
Riverhurst Wind Farm LP ("Riverhurst")	Canada	100%	100%	Power generation
Cardinal Power of Canada, L.P. ("Cardinal")	Canada	100%	100%	Power generation
SP Amherst Wind Power LP ("Amherst")	Canada	51%	51%	Power generation
Parc Éolien Saint-Philémon S.E.C. ("Saint-Philémon")	Canada	51%	51%	Power generation
Whitecourt Power Limited Partnership ("Whitecourt")	Canada	100%	100%	Power generation
Sky Generation L.P. ("SkyGen") (3)	Canada	100%	100%	Power generation
Watford Wind LP ("Watford")	Canada	100%	100%	Power generation
Glace Bay Lingan Wind Power Ltd. ("Glace Bay")	Canada	100%	100%	Power generation
Wild Rose 2 Wind LP ("Wild Rose 2")	Canada	100%	100%	Development
Buffalo Atlee 1 Wind LP, Buffalo Atlee 2 Wind LP, Buffalo Atlee 3 Wind LP, Buffalo Atlee 4 Wind LP (collectively, "Buffalo Atlee")	Canada	75%	75%	Development
Kneehill Solar LP ("Kneehill")	Canada	75%	100%	Development
Michichi Solar LP ("Michichi")	Canada	75%	100%	Development
Obra Maestra Renewables, LLC ("Obra Maestra")	United States	50%	N/A	Power holding company

(1) Ownership of GHG Wind Development LP, SR Wind Development LP, and SLS Wind Development LP was 100% in 2021, with a convertible debenture outstanding which provided the holder the option to convert its debt into a 50% equity interest. In 2022, these entities were reorganized and transferred into SLGR. Refer to note 3.
(2) On January 7, 2021, Capstone acquired the assets of new wind facilities which are now held in SWNS. Refer to note 3 for more details.
(3) The SkyGen entity holds the Ferndale, Ravenswood, Proof Line and Skyway 8 operating wind facilities.

The Corporation accounts for its controlled investments using the consolidation method of accounting from the date control is obtained and deconsolidates from the date that control ceases. All intercompany balances and transactions have been eliminated on consolidation.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the Corporation's interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Equity Accounted Investments

Companies in which the Corporation has the ability to exercise significant influence, but not control, or has the ability to exercise joint control over financial and operating policy decisions are accounted for using the equity method. Significant influence is presumed to exist when the Corporation holds between 20% and 50% of the voting power of another entity.

Business Combinations

The acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Corporation in exchange for control of the acquired business. The acquired identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, Business Combinations ("IFRS 3") are recognized at their fair value at the acquisition date.

The Corporation recognizes any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Foreign Currency Translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of income in "foreign exchange gain (loss)".

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents are composed of highly liquid investments with original maturities of 90 days or less at the date of acquisition and are recorded at fair value. Restricted cash comprises amounts primarily restricted by credit agreements for specific uses including amounts funded against future maintenance, debt service, and construction costs at certain subsidiaries.

Loans Receivable

The Corporation has financial assets that consist of interest-bearing and non interest-bearing loans receivable. Loans are carried at either amortized cost or fair value through profit or loss, according to the conditions met under IFRS 9.

Capitalized Interest

The Corporation capitalizes interest and borrowing costs when activities that are necessary to prepare the asset for its intended use are in progress, and expenditures for the asset have been used or borrowed to fund the construction or development. Capitalization of interest and borrowing costs ceases when the asset is ready for its intended use. Capitalized interest is included in the statement of financial position as part of capital assets and projects under development.

Grants and Contributions

Grants are recognized at their fair value when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants and contributions related to charges to net income are netted against such expenditures as received.

Capital Assets

Capital assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, excluding variable payments contingent on future events. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying value of an asset is derecognized when retired or replaced.

Right-of-use ("ROU") assets are primarily land leases, measured at cost comprising of the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date and any initial direct costs.

Major maintenance costs are capitalized in the carrying value of the assets as incurred, and depreciated over their useful lives. Other repairs and maintenance costs are charged to the consolidated statement of income during the period incurred.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognized within the consolidated statement of income.

The Corporation allocates the amount initially recognized in respect of an item of capital assets to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate. The major categories of capital assets are depreciated using the straight-line method as follows:

	Power
Equipment and vehicles:	
Computer hardware	3 to 5 years
Communications, meters and telemetry equipment	3 to 25 years
Vehicles	3 to 10 years
Property and plant:	
Operational structures	3 to 30 years
Operational properties	5 to 30 years
ROU assets	5 to 40 years

Leases

ROU assets and equal lease liabilities arising from a lease are initially measured on a present value basis, using a single discount rate for a portfolio of leases with reasonably similar characteristics.

Leased (ROU) Assets

At the inception of a contract, the Corporation assesses whether the contract is, or contains, a lease that conveys to the Corporation the right to control the use of an underlying asset in return for payment. Assets financed by leasing agreements that transfer substantially all the risks and rewards of ownership of an asset to the lessee are capitalized as an ROU asset on the date on which they are available for use and depreciated over the shorter of their estimated useful lives and the lease term. The capital element of the lease rental is deducted from the obligation to the lessor as paid. The interest element of lease rentals and the depreciation of the relevant assets are charged to the consolidated statement of income.

Lease Liabilities

Lease liabilities are measured at the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is virtually certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. Capital lease payments are discounted using Capstone’s incremental borrowing rate where the rate implicit in the lease is not readily determinable. The variable portion of lease payments not included in the lease liability will remain in operating expenses in the statement of income.

Projects Under Development ("PUD")

Capitalized costs related to an asset under development include all eligible expenditures incurred in connection with the development and construction of the power generating asset until it is available for its intended use. The Corporation capitalizes all direct project costs related to the development of the Corporation's electricity generation or storage projects. Capitalization commences when the costs are measurable and it is probable the benefits will flow to Capstone.

Development cost capitalization criteria include the following and are dependent on the type of clearly identified project:

- The technical feasibility has been established or interconnection permit secured;
- Management has indicated its intention to construct, operate and maintain the project or land option(s) established;
- An offtake market is identified or a power purchase agreement ("PPA") awarded; and
- Adequate resources exist or are expected to be available to complete the project.

Upon a project becoming commercially operational, the capitalized costs, including capitalized borrowing costs, if any, are transferred to capital assets and are amortized on a straight-line basis over the estimated useful lives of the various components.

The recovery of project development costs is dependent upon successful commercialization of project sites for the profitable sale of electricity.

Intangible Assets

Identifiable intangible assets

The Corporation separately identifies acquired intangible assets, including computer software, electricity supply contracts, gas purchase contracts, water rights and licenses, and records each at their fair value at the date of acquisition. The initial fair value is amortized over their estimated useful lives using the straight-line method as follows:

	Power
Computer software	3 to 7 years
Electricity supply, gas purchase and other contracts	14 to 25 years
Water rights	35 years

The expected useful lives of intangible assets are reviewed on an annual basis and adjusted prospectively.

Impairment of Non-financial Assets

The capital assets, projects under development and intangible assets with finite lives are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of an asset's fair value less costs to sell the assets and the value in use (being the present value of the expected future cash flows of the relevant assets or Cash Generating Unit ("CGU")). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The Corporation evaluates impairment losses, for potential reversals when events or circumstances warrant such consideration.

Provisions

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured using management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Corporation performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Retirement Benefit Plans

The Corporation operates defined contribution pension plans through its subsidiaries. Costs of defined contribution pension plans are charged to the consolidated statement of income in the period in which they fall due.

Asset Retirement Obligations

The Corporation recognizes a provision for the future retirement obligations associated with its operating plants. These obligations are initially measured at the present value, which is the discounted future cost of the liability. A reassessment of the expected costs associated with these liabilities is performed annually with changes in the estimates of timing or amount of cash flows added or deducted from the cost of the related asset. The liability grows until the date of expected settlement of the retirement obligations.

Share Capital

Common and Class A shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in equity.

Preferred Shares

The Corporation classifies its series A preferred shares as equity for reporting purposes given that the preferred shares may be converted into a fixed number of the Corporation's own equity instruments and there is no settlement required at a future date. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in equity.

Dividends

Dividends on series A preferred shares are recognized in the Corporation's consolidated financial statements in the period in which the dividends are declared by the Board of Directors of the Corporation.

Revenue Recognition

Revenue from Contracts with Customers

Revenue derived from the sale of electricity and steam is recognized upon delivery to the customer and priced in accordance with the provisions of the applicable electricity and steam sales agreements. Revenue derived from the sale of emissions offset credits is recognized upon execution of a contract for sale. In addition, capacity and availability payments to Cardinal are recognized in accordance with the non-utility generator contract. Certain power purchase arrangements provide for an electricity rate adjustment, which is updated periodically both for the current and prior periods. Capstone accounts for such adjustments when a reliable estimate of the adjustment can be determined. Whitecourt and Claresholm derive revenue from the generation and sale of electricity at market rates and the sale of emissions offset credits. Revenue from electricity sales to the Alberta Power Pool are recorded at the hourly weighted average power pool rate, and revenue from the sale of emissions offset credits is recorded at the contracted price.

When projects earn revenue during the pre-commissioning stage, the corporation recognizes proceeds from electricity sales generated by an asset before its intended use in income.

The customer invoices and provides payments on a systematic basis based on fixed billing cycles. There are no significant financing components inherent in Capstone’s contracts with customers. Capstone does not make significant judgments that affect the determination of the amount and timing of revenue from contracts with customers.

Other Revenue and Income Recognition

Capstone follows Accounting for Government Grants and disclosure of Government Assistance (IAS 20) with respect to certain power contracts with provincial jurisdictions.

Interest income is earned with the passage of time and is recorded on an accrual basis.

Expense Recognition

Costs related to the purchases of fuel are recorded upon delivery. All other costs are recorded as incurred.

Project development costs are recorded as incurred. These costs include the activities to pursue and develop greenfield projects and acquisition-related business development expenses incurred at both the power segment and corporate.

Interest expense is incurred with the passage of time and is recorded on an accrual basis.

Long-term Incentive Plans

The Corporation accounts for grants under its share appreciation rights ("SAR") plan in accordance with IFRS 2 Share-Based Payments.

Income Taxes

Current and deferred income taxes are recognized in the consolidated statement of income except to the extent that they relate to items recognized directly in equity or in other comprehensive income, in which case the income tax is also recognized directly in equity or in other comprehensive income.

Current income tax is the amount recoverable or expensed based on the current year's taxable income using tax rates enacted, or substantively enacted, at the reporting period, and any adjustments to income tax payable or recoveries in respect of previous years.

The Corporation follows the liability method of accounting for deferred income tax whereby deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred income tax assets and liabilities are determined using income tax rates that are both expected to apply when the deferred income tax asset or liability will be settled and that have been enacted or substantively enacted as at the date of the consolidated statement of financial position. Deferred income tax assets are recognized to the extent that it is probable that the asset can be recovered. Deferred income tax assets and liabilities are presented as non-current.

Comprehensive Income

Other comprehensive income ("OCI") represents changes in shareholders' equity during a period arising from transactions and other events, including the effective portion of the change in fair value of designated cash flow hedges less any amounts reclassified to interest and other expenses, net, in the period the underlying hedged item is also recorded in interest expense, net. Accumulated other comprehensive income ("AOCI") is included as a component in the consolidated statement of shareholders' equity.

Financial Instruments

Financial assets and financial liabilities are recognized on the consolidated statement of financial position when the Corporation becomes a party to the contractual provisions of the financial instrument.

Classification and Measurement

Financial instruments are required to be measured at fair value on initial recognition plus transaction costs in the case of financial instruments measured at amortized cost. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as fair value through profit and loss ("FVTPL") are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

The Corporation has designated each of its significant categories of financial instruments outstanding as follows:

IFRS 9 Classification	Significant Categories	Measurement
Amortized cost assets	• Cash and cash equivalents • Restricted cash • Accounts receivable • Loans receivable at amortized cost	• At amortized cost using the effective interest method
Financial assets and liabilities at fair value through profit and loss	• Derivative contract assets • Derivative contract liabilities • Loans receivable at fair value	• At fair value with changes in fair value recognized in the consolidated statement of income
Other liabilities	• Accounts payable and other liabilities • Long-term debt	• At amortized cost using the effective interest method

The classification of financial assets depends on Capstone’s business objectives for managing the assets and whether contractual terms of the cash flows are considered solely payments of principal and interest. For assets measured at FVTPL, gains and losses will be recorded in the statement of income as incurred.

The Corporation determines the fair value of its financial instruments based on the following hierarchy:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Derivative Financial Instruments

The Corporation's derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. In 2022, the Corporation's derivatives include an embedded derivative in Whitecourt's fuel supply agreement, interest rate swaps, and foreign currency contracts.

Changes in the fair values of derivative financial instruments are reported in the consolidated statement of income, except for cash flow hedges that meet the conditions for hedge accounting. Capstone designates its foreign currency contracts as hedges of foreign exchange risk associated with the cash flows of highly probable forecasted capital expenditure transactions. The portion of the gain or loss on the hedging instruments that are determined to be an effective hedge are recognized directly in other comprehensive income, and the ineffective portion in the consolidated statement of income. Gains or losses recognized in other comprehensive income are subsequently recognized in the statement of income in the same period in which the hedged underlying transaction or firm commitment is recognized in the statement of income.

In order to qualify for hedge accounting, the Corporation is required to document in advance the relationship between the item being hedged and the hedging instrument. The Corporation is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at the end of each reporting period to ensure that the hedge remains highly effective.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract.

Impairment of Financial Assets

For financial assets measured at amortized cost, Capstone applies the simplified expected credit loss ("ECL") approach as permitted by IFRS 9. ECLs are estimated based on historical information, third-party accreditations such as credit ratings, and forward looking information regarding historical customer default rates. Capstone does not expect this to affect any measurement of financial assets and liabilities as its customer base is predominantly government entities.

If impairment exists on the financial asset, the Corporation recognizes an impairment loss in the consolidated statement of income. The loss is measured as the difference between the carrying and the present value of the expected future cash flows. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Impairment of cash and cash equivalents and restricted cash are evaluated by reference to the credit quality of the underlying financial institution.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

Earnings Before Interest Expense, Taxes, Depreciation and Amortization ("EBITDA")

EBITDA is an additional GAAP financial measure defined as earnings (loss) before financing costs, income tax expense, depreciation and amortization. EBITDA includes earnings (loss) related to the non-controlling interest ("NCI"), equity accounted investments, interest income, other gains and losses (net), and foreign exchange gains and losses. EBITDA represents Capstone’s capacity to generate income from operations before taking into account management’s financing decisions and costs of consuming tangible capital assets and intangible assets, which vary according to their age, technology, and management’s estimate of their useful life. EBITDA is presented on the consolidated statement of income.

Changes to Accounting Policies

Capstone's accounting policies are consistent with those disclosed in the notes to the December 31, 2021 consolidated financial statements.

Change to Comparative Figures

The Corporation made an adjustment to the 2021 comparative figures in the Statement of Cash Flows related to the treatment of non-cash additions to Capital Assets as Investments in Capital Assets. This resulted in a $4,274 decrease in cash flows from operating activities and an offsetting decrease in cash flows used in investing activities, compared with amounts presented in the financial statements for the year ended December 31, 2021.

Future Accounting Changes

The IASB has not issued any significant accounting standard changes that impact the Corporation. Capstone is evaluating the impact of the narrow-scope amendments to IAS 1 on the Corporation. The amendments clarify how liabilities are classified based on the conditions with which an entity must comply within twelve months after the reporting period, and are effective for annual reporting periods beginning on or after January 1, 2024.

Capstone continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements.

Critical Accounting Estimates and Judgments

The Corporation makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Corporation's financial statements. These estimates and judgments have a risk of causing a material adjustment to the carrying values of financial assets and financial liabilities within the next financial year.

Area of Significance	Critical Estimate	Critical Judgments [1]
Capital assets, projects under development and intangible assets – carrying values Fair value estimates are required in the determination of the net assets acquired in a business combination and in the impairment assessment for our capital assets and the assignment of amounts to the asset retirement obligations, as well as assessing capitalization criteria for project development costs.	• Estimates are based on assumptions that are sensitive to change, which may have a significant impact on the valuations performed. • Impairment reviews of the carrying value of capital and other long-lived assets along with the asset retirement obligations require management to estimate fair value based on future cash flows, discount rates and business performance.	• Initial fair value of net assets • Estimated useful lives and residual value • Expected settlement date, amount and discount rate • Future cash flows and discount rate
Deferred income taxes Estimates in the determination of deferred income taxes affect asset and liability balances.	• The determination of the deferred income tax balances of the Corporation requires management to make estimates of the reversal of existing temporary differences between the accounting and tax bases of assets and liabilities in future periods.	• Timing of reversal of temporary differences • Tax rates • Current and future taxable income
Financial instrument fair value measurements When observable prices are not available, fair values are determined by using valuation techniques that refer to observable market data. This is specifically related to Capstone's financial instruments.	• Management's valuation techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. • For embedded derivatives, fair values are determined from valuation techniques using non-observable market data or transaction processes. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate.	• Forward Alberta Power Pool prices, volatility, credit spreads and production projections

(1) The COVID-19 outbreak and the 2022 Russian invasion of Ukraine have not changed Capstone's method of calculation for its critical estimates and judgments.

NOTE 3. ACQUISITIONS AND TRANSACTIONS

(A) SWNS Wind Facilities

On January 7, 2021, Capstone purchased 29MW of operating wind projects, known as the Springwood, Whittington, Napier, and Sumac Ridge wind facilities from wpd Europe GmbH ("wpd"). These projects have assets that operate in Ontario and long-term power purchase agreements ("PPA"), with approximately 14 years remaining. They are held by a wholly-owned indirect subsidiary, SWNS Wind LP ("SWNS"), and were funded with existing cash on hand and non-recourse project debt (see note 17 Long-Term Debt). As at December 31, 2021 and December 31, 2022, the balances in Capstone's consolidated statement of financial position include the SWNS wind facilities. The statements of comprehensive income and cash flows include the results from SWNS subsequent to January 7, 2021.

(B) SLGR Convertible Debenture, Reorganization and Refinancing

Pursuant to a convertible debenture held by a subsidiary of One West Holdings Ltd. ("Concord"), Concord had an option to convert the debt into a 50% ownership interest in the Ganaraska and Grey Highlands ZEP ("GHG"), Snowy Ridge ("SR") and Settlers Landing ("SLS") wind projects. On July 14, 2022, as part of a reorganization, Capstone purchased 1% of Concord's option, then Concord exercised its right to convert its outstanding convertible debenture debt to equity, resulting in Capstone and Concord having 51% and 49% ownership interests in the projects, respectively. After conversion, changes to Concord's interest in the projects are reflected as net income (loss) attributable to NCI.

On July 14, 2022, the GHG, SR, and SLS wind projects were reorganized and the assets and liabilities of these wind facilities were transferred into SLGR. The projects remain consolidated in Capstone's statement of financial position and the statements of comprehensive income and cash flows.

Concurrently, SLGR executed a refinancing which provided $119,000 of variable rate project debt and swap contracts to convert the variable rate obligations to a fixed rate. The debt amortizes over the remaining term of the projects' power purchase agreements of approximately 14 years. The proceeds of the SLGR financing were used in part to fully repay the existing project debt at GHG, SR, and SLS. Refer to note 17.

(C) Genalta Power Inc. ("Genalta")

On November 17, 2022, CPC purchased all of the remaining shares of Genalta not owned by Capstone by way of a plan of arrangement, resulting in the consolidation of Genalta in the consolidated financial statements of Capstone. As at December 31, 2022, the balances in Capstone's consolidated statement of financial position include Genalta. The statements of comprehensive income and cash flows include the results from Genalta subsequent to November 17, 2022.

NOTE 4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Dec 31, 2022	Dec 31, 2021
Debt service and maintenance reserves	21,808	21,700
Construction holdbacks	2,206	4,525
Construction escrow	—	8,571
Other reserves	4,601	3,083
Restricted cash	28,615	37,879
Unrestricted cash and cash equivalents	124,897	57,376
	153,512	95,255

Restricted cash is primarily cash that is held by the Corporation's subsidiaries in support of segregated bank accounts to support debt service reserves, operating and maintenance reserves in support of specific long-term debt and/or proceeds from construction facilities used for specific project costs. Capstone has also provided letters of credit to back other reserve requirements (refer to note 17), and the Class A common shareholder provided letters of credit issued to the benefit of Capstone (refer to note 26).

NOTE 5. ACCOUNTS RECEIVABLE

	Dec 31, 2022	Dec 31, 2021
Power (1)	47,840	30,851
Corporate	50	65
	47,890	30,916

(1) Power accounts receivable balance includes government funding receivable of $7,919 held back subject to conditions.

For both periods presented, accounts receivable did not require a provision for impairment. Substantially all of the accounts receivable are with government authorities or investment grade counterparties and none are past due. Refer to note 9b and 9c for further detail of credit risk and economic dependence.

NOTE 6. OTHER ASSETS

	Dec 31, 2022	Dec 31, 2021
Prepaid expenses	3,057	3,148
Inventory of spare parts and consumable supplies, net (1)	1,979	1,740
Investment in Genalta (2)	—	500
Other	211	211
	5,247	5,599

(1) No inventory obsolescence provision is required as at December 31, 2022 (2021 - nil).

(2) In 2022, Capstone acquired the remaining common shares of Genalta and subsequently the consolidated balance of this investment is nil. Refer to note 3.

The cost of inventories recognized in operating expenses for the year ended December 31, 2022 was $724 (2021 - $359).

NOTE 7. LOANS RECEIVABLE

	Dec 31, 2022	Dec 31, 2021
Sawridge First Nation ("Sawridge") (1)	21,567	2,230
Genalta (2)	—	8,000
	21,567	10,230
Current portion (3)	14,921	—
	36,488	10,230

(1) Capstone has provided its First Nation partner on the Buffalo Atlee wind development projects and Michichi and Kneehill solar development projects with a loan for their pro rata share of project costs. The principal is to be repaid from the projects' excess cash flows from the achievement of commercial operations ("COD"). The loan is interest-free until COD. This loan receivable is recorded at fair value.

(2) In 2022, Capstone acquired the remaining common shares of Genalta and subsequently the consolidated balance of this loan is nil. Refer to note 3.

(3) Capstone's demand loans to a partner, presented net of amortization. Interest receivable of $294 is included in accounts receivable on the statement of financial position as at December 31, 2022. This loan receivable is recorded at amortized cost.

NOTE 8. FINANCIAL INSTRUMENTS

Financial instruments consist of amortized cost assets, other liabilities and financial instruments at fair value through profit and loss.

Amortized Cost Assets

Cash and cash equivalents, restricted cash	Balances are invested in financial instruments of highly rated financial institutions and government securities with original maturities of 90 days or less. As at December 31, 2022, the carrying values of cash and cash equivalents and restricted cash are considered to approximate their fair values due to their short-term nature.
Accounts receivable	Are trade receivables with carrying values that approximate their fair values.
Loans receivable at amortized cost	According to the conditions met under IFRS 9, loans carried at amortized cost are measured using the effective interest rate method. The fair value of the Corporation's loans receivable may differ from the carrying value due to changes in interest rates and the underlying risk associated with the debtor.

Other Liabilities

Accounts payable and other liabilities	Are short-term liabilities with carrying values that approximate their fair values.
Long-term debt	Balances are recorded at amortized cost using the effective interest rate method. The fair value of the Corporation's long-term debt is determined using level 2 inputs as follows: • Floating rate debt approximates its carrying value. • Fixed-rate debt is determined through the use of a discounted cash flow analysis using relevant risk-free bond rates plus an estimated margin.

Financial Instruments at Fair Value through Profit and Loss ("FVTPL")

Whitecourt embedded derivative

On March 2, 2015, Whitecourt entered into a fuel supply agreement with Millar Western for 15 years, which is extendable to 20 years. The agreement, which was effective on January 1, 2015, includes power price support and revenue sharing mechanisms that reduce Whitecourt's exposure to merchant price risk in Alberta.

The price support and revenue sharing mechanisms comprise an embedded derivative that is measured at fair value and results in an asset during periods when the projected merchant power price is forecast to be lower than the price support and a liability during periods when the merchant power price is forecast to be higher.

On March 2, 2015, Capstone recognized an asset of $5,297 based on the fair value of the Whitecourt fuel supply agreement, which was equal to and offset the fair value of the embedded derivative included in Whitecourt's fuel supply agreement at inception. Capstone amortizes the inception value to income over 15 years, representing the life of the fuel supply agreement.

Interest rate swaps

These contracts effectively fix the interest cost on long-term debt with variable rates, specifically for SLGR, SWNS, Cardinal, Grey Highlands Clean, Claresholm, Riverhurst, and Michichi. In addition, an interest rate swap was entered for Buffalo Atlee's construction debt, and a contingent interest rate hedge contract in anticipation of financing Wild Rose 2. Under these agreements, the projects receive or will receive Canadian Dollar Offered Rate ("CDOR") in exchange for fixed rate (refer to note 9a).

Foreign currency contracts

These contracts mitigate the currency risk related to US dollar purchases.

Loans receivable (Sawridge)

Capstone has provided its First Nation partner on the Buffalo Atlee wind development projects and Michichi and Kneehill solar development projects with a loan for their pro rata share of project costs. Principal is to be repaid from the projects' excess cash flows from the achievement of COD. The loan is interest-free until COD, then bears a fixed interest rate of 5% or 15% during periods subsequent to COD. These loans have an objective and cash flows which meet the conditions to be measured at fair value, are classified as financial assets at fair value through profit and loss.

Fair value determination

The Corporation has determined the fair values of derivative financial instruments as follows:

Whitecourt embedded derivative	The determination of the fair value of the embedded derivative requires the use of option pricing models involving significant judgment based on management's estimates and assumptions, including the forward Alberta Power Pool prices, volatility, credit spreads and production projections.
Interest rate swaps	Fair value fluctuates with changes in market interest rates. A discounted cash flow valuation based on a forward interest rate curve was used to determine their fair value.
Foreign currency contracts	Fair value fluctuates with changes in the US dollar to the Canadian dollar. A discounted cash flow valuation based on a forward USD/CAD exchange rate curve was used to determine their fair value.
Loans receivable at FVTPL	According to the conditions met under IFRS 9, loans carried at FVTPL are measured using a discounted cash flow valuation based on the repayment schedule from project cash flows is used to determine their fair value.

Due to the lack of observable market quotes on the Whitecourt embedded derivative, the contract has been classified as level 3 financial instruments.

Capstone, with the assistance of third-party experts, is responsible for performing the valuation of financial instruments, including level 3 fair values. The valuation processes and results are reviewed and approved each reporting period. These critical estimates are discussed as part of the Audit Committee's quarterly review of the financial statements.

The following table illustrates the classification of the Corporation's financial instruments, that have been recorded at fair value:

Recurring measurements:	**Level 1** Quoted prices in active markets for identical assets	**Level 2** Significant other observable inputs	**Level 3** Significant unobservable inputs	**Dec 31, 2022**	**Dec 31, 2021**
Loans receivable [1]	—	21,567	—	21,567	2,230
Derivative contract assets:					
Whitecourt embedded derivative [2]	—	—	—	—	5,983
Interest rate swap contracts	—	39,727	—	39,727	9,148
Foreign currency contracts [3]	—	—	—	—	7
Less: current portion	—	(11,028)	—	(11,028)	(10)
	—	28,699	—	28,699	15,128
Derivative contract liabilities:					
Interest rate swap contracts	—	401	—	401	8,179
Whitecourt embedded derivative [2]	—	—	3,819	3,819	—
Less: current portion	—	(401)	—	(401)	(2,143)
	—	—	3,819	3,819	6,036

(1) Includes loans receivable which are recorded at fair value with changes recognized through profit and loss. Refer to note 7.
(2) Consists of a $1,347 fair value liability and $2,472 amortized contra-asset, set up on inception (2021 - $8,808 asset and $2,825 contra-asset, respectively).
(3) Foreign currency contracts relate to USD purchases for the construction of development projects.

Fair value continuity for Level 3 inputs

	2022	**2021**
Opening balance, January 1,	5,983	13,493
Change in value of the embedded derivative included in other gains and (losses) in net income	(965)	(1,487)
Settlements during the period	(9,190)	(6,376)
Amortization of inception value included in other gains and (losses) in net income	353	353
Closing balance, December 31,	(3,819)	5,983

Income and Expenses from Financial Instruments

	Dec 31, 2022	**Dec 31, 2021**
Amortized cost assets:		
Interest income on cash and cash equivalents, restricted cash	2,007	278
Interest income on loans receivable	1,106	720
	3,113	998
Other liabilities:		
Interest expense on long-term debt [1]	(46,261)	(42,695)
Financial instruments at FVTPL (refer to note 24):		
Whitecourt embedded derivative	(18,992)	(13,884)
Interest rate swap contracts	38,357	17,002
Changes in derivative financial instruments fair value	19,365	3,118

(1) Interest expense on the long-term debt for 2022 of $46,261 includes amortization of deferred financing fees, interest expense on lease liabilities and accretion on liability for asset retirement obligations of $4,047, $2,212 and $602, respectively (2021 - $2,881, $2,261 and $541).

NOTE 9. FINANCIAL RISK MANAGEMENT

The Corporation's normal operating, investing and financing activities expose it to a variety of financial risks, including market risk, credit risk, economic dependence and liquidity risk. The Corporation's overall risk management process is designed to identify, manage and mitigate business risk, which includes, among others, financial risk.

(A) Market Risk

Market risk is the risk or uncertainty arising from possible price movements and their impact on the future performance of the business. The Corporation is exposed to commodity price risk (electricity revenue), interest rate and inflation risk, foreign currency exchange risk, and other indices that could adversely affect the value of the Corporation's financial assets, liabilities or expected future cash flows.

Commodity price risk

In 2022, Cardinal, Whitecourt, and Claresholm's revenues are exposed to price risk as follows:

(i) Cardinal earns a portion of its revenue by supplying electricity to the Ontario grid only when profitable to do so.

(ii) Whitecourt sells all electricity generated into the Alberta Power Pool. Millar Western and Whitecourt's fuel supply agreement includes sharing mechanisms regarding the price received for electricity sold by Whitecourt.

(iii) Claresholm sells a portion of electricity generated into the Alberta Power Pool, and the remaining energy is sold under the terms of various PPAs.

Interest rate and inflation risk

Interest rate risk arises as changes in market interest rates affect the Corporation's future payments on debt obligations. The Corporation is exposed to interest rate risk on its floating rate debt. Currently, the Corporation has interest rate swap contracts to mitigate some of the risks associated with its long-term debt.

The terms of the contracts are:

Entity	Maturity Date	Notional Amount	Swap Fixed Rate	Credit Margin	Effective Interest Rate
SLGR	Dec 31, 2036	118,501	3.25%	1.25%	4.50%
SWNS	Dec 31, 2036	80,316	1.30%	1.75%	3.05%
Cardinal	Jun 30, 2034	66,080	2.44% - 2.82%	1.25%	3.69% - 4.07%
Grey Highlands Clean	Sep 30, 2036	59,142	1.22%	1.63%	2.85%
Claresholm	Sep 30, 2030	49,890	1.06%	2.75%	3.81%
Claresholm	Sep 29, 2032	2,709	3.16%	2.75%	5.91%
Buffalo Atlee (1)	Dec 31, 2043	47,315	3.58%	1.50%	5.08%
Riverhurst	Dec 10, 2041	46,514	3.42%	1.38%	4.80%
Michichi & Kneehill (2)	Mar 31, 2043	41,500	3.67%	1.50%	5.17%

(1) Buffalo Atlee 1, as administrative borrower, has swap contracts to convert interest to a fixed rate for the Buffalo Atlee projects.
(2) Michichi, as administrative borrower, has swap contracts to convert interest to a fixed rate for the Michichi and Kneehill projects.
(3) The interest rate swap contracts include a contingent contract in anticipation of financing the Wild Rose 2 project.

Foreign currency exchange risk

Capstone's power assets have expenses or capital commitments in currencies other than the Canadian dollar; as new projects are built, expected additional purchases will be made in foreign currencies. To mitigate these risks Capstone monitors the risk associated with foreign exchange rate fluctuations and, from time to time, may enter into forward foreign exchange contracts or employ other hedging strategies.

(B) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to honour a financial obligation.

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of cash and cash equivalents, restricted cash, accounts receivable, loan receivable and derivative contracts.

The Corporation deposits its cash with reputable financial institutions and limits the exposure by counterparty; management therefore believes the risk of loss to be remote.

Credit risk concentration with respect to power trade receivables is limited due to the Corporation's customer base being predominantly investment grade counterparties. The table below summarizes power trade receivables from the sale of electricity and government incentive programs by credit quality:

As at	Dec 31, 2022 $	%	Dec 31, 2021 $	%
Investment grade [1]	47,043	98 %	29,988	97 %
Other	847	2 %	928	3 %
	47,890	100 %	30,916	100 %

(1) Investment grade is defined as a credit rating of BBB or higher as defined by both S&P and DBRS.

There are no accounts receivable that are past due. Since the corporation uses external credit ratings to assess the credit quality of all counterparties, and counterparties are regularly monitored for credit worthiness, management considers credit risk to be minimal.

The Corporation's derivative agreements expose Capstone to losses under certain circumstances, such as the counterparty defaulting on its obligations under the swap agreements or if the swap agreements provide an imperfect hedge. Counterparties to the Corporation's derivative contracts are major financial institutions that have been accorded investment-grade ratings. Consequently, management believes there to be minimal credit risk associated with its derivative contracts.

(C) Economic Dependence

Economic dependence arises when an enterprise relies on a significant volume of business with another party that cannot be easily transferred at similar terms and conditions, or is abnormal relative to expectations of similar entities. The table below summarizes revenue from the sale of electricity by credit quality for the power segment:

For the year ended	Dec 31, 2022 $	%	Dec 31, 2021 $	%
Investment grade [1]	254,963	100 %	222,138	100 %
Other	59	— %	429	— %
	255,022	100 %	222,567	100 %

(1) Investment grade is defined as a credit rating of BBB or higher as defined by both S&P and DBRS.

(D) Liquidity Risk

Liquidity risk is the risk that the Corporation may have insufficient cash or other resources to meet obligations as they come due.

Compliance with debt covenants

The Corporation has financial liabilities in its power operating segments and at corporate. Refer to notes 15 accounts payable and other liabilities and 17 long-term debt for further details on financial liabilities. These financial liabilities contain a number of standard financial and other covenants.

Failure to comply with terms and covenants of the Corporation's credit agreements could result in a default, which, if not cured or waived, could result in accelerated repayment or the suspension of preferred dividends.

In the event of default, there can be no assurance that the Corporation could:

(i) Generate sufficient cash flow from operations in amounts sufficient to pay outstanding indebtedness, or to fund any other liquidity needs; or

(ii) Pay future preferred dividends; or

(iii) Refinance these credit agreements or obtain additional financing on commercially reasonable terms, if at all. The credit agreements, and future borrowings may be at variable rates of interest, which exposes the Corporation to the risk of increased interest rates.

Contractual maturities

The contractual undiscounted maturities of the Corporation's financial liabilities as at December 31, 2022 were as follows:

Financial Liabilities	Within one year	One year to five years	Beyond five years	Total
Accounts payable and other liabilities	53,976	—	—	53,976
Lease liabilities [1]	3,522	13,455	52,568	69,545
Long-term debt				
Principal payments	87,862	401,596	446,698	936,156
Interest payments	37,314	121,045	132,346	290,705
	125,176	522,641	579,044	1,226,861

(1) Includes the fixed portion of minimum lease payments.

(E) Sensitivity Analysis

The sensitivity analysis provided below discloses the effect on net income for the year ended December 31, 2022, assuming that a reasonably possible change in the relevant risk variable has occurred during the year, and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes. The changes in market variables used in the sensitivity analysis were determined based on implied volatilities, where available, or historical data.

The sensitivity analysis has been prepared based on December 31, 2022 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, and the energy contracts that are financial instruments in place at December 31, 2022 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments under IFRS 9.

The sensitivity analysis provided is hypothetical and should be used with caution because the impacts provided are not necessarily indicative of the actual impacts that would be experienced, as the Corporation's actual exposure to market rates is constantly changing as the Corporation's portfolio of commodity, debt, foreign currency, and equity contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates, hedging strategies employed by the Corporation or other mitigating actions that would be taken by the Corporation.

The table summarizes the impact on fair value of changes in the Whitecourt embedded derivative's level 3 unobservable inputs:

Dec 31, 2022	Unobservable inputs	Estimated input	Relationship of input to fair value
$(3,819)	Forward Alberta Power Pool prices	From $50/MWh to $214/MWh over the next 7 years.	A reasonably possible increase in estimated forward prices of 5% or a decrease of 5%, would cause fair value to decrease by $2,292 and increase by $2,127, respectively.

Changes in these estimates may have a significant impact on the fair value of the embedded derivative given the length of contract involved. As new information becomes available, management may choose to revise these estimates where there is an absence of reliable observable market data.

The table summarizes the impact on fair value of changes in level 2 observable inputs:

	Carrying	Interest Rate Risk	
Dec 31, 2022	Amount	(0.5)%	0.5%
Financial assets and (liabilities)[(1)]:			
Interest rate swap assets (liabilities), net	39,326	10,911	60,999

(1) Financial liabilities in long-term debt are not included as all long-term debt is either fixed-rate debt or variable rate debt that is covered by a swap contract for fixed-rate debt. The outstanding balance on the CPC revolving credit facility was $35,500.

NOTE 10. EQUITY ACCOUNTED INVESTMENTS

(A) Equity Accounted Investments

On June 7, 2022, a Capstone subsidiary entered into an agreement with a subsidiary of Eurowind Energy A/S ("Eurowind") for the purpose of jointly developing renewable energy projects in the United States ("US"). Capstone and Eurowind have equal interests in these projects. Prior to the transaction, Capstone indirectly wholly owned the projects and had included the balances as part of the December 31, 2021 and March 31, 2022 consolidated financial statements.

The investments were deconsolidated on the date of the transaction. Since Capstone has the ability to exercise significant influence, but not control, over financial and operating policy decisions, the investment is accounted for on an equity accounting basis.

The fair value of the projects as at June 7, 2022 was $6,604. The deconsolidation on loss of control resulted in derecognition of PUD of $5,463 and a gain of $1,141 in other gains and losses for project development costs incurred. Capstone recognized its initial fair value of the equity accounted investment of $3,302.The following table shows Capstone's investment as of June 7, 2022:

	Opening balance June 7, 2022
PUD	5,463
Cumulative project development expenses	1,141
Cumulative costs	6,604
Capstone ownership interest	50 %
Capstone investment	3,302

As part of the transaction, Capstone contributed the project entities and the associated net assets, and Eurowind paid cash of $3,302 for its half. Subsequent to the transaction, the projects are held by a jointly owned entity, Obra Maestra Renewables, LLC ("Obra Maestra"), and are equally owned by indirect subsidiaries of Capstone and Eurowind.

As at	Ownership %	Dec 31, 2022 Carrying Value	Dec 31, 2021 Carrying Value
Obra Maestra	50%	6,492	—
		6,492	—

Capstone's December 31, 2022 consolidated financial statements include its 50% interest as an equity accounted investment adjusted by the share of net income (loss) and contributions made subsequent to the initial contribution on June 7, 2022.

The change in Capstone's equity accounted investment for the period ended December 31, 2022 was:

	Opening balance June 7, 2022	Contributions	Equity accounted income (loss)	Ending balance
Obra Maestra	3,302	3,885	(695)	6,492

(B) Summarized Information for Equity Accounted Investments

The Corporation has summarized its equity accounted investments using their gross values as follows:

As at Summarized Statements of Financial Position	Dec 31, 2022 Obra Maestra
Assets	
Current	5,578
Non-current	7,366
Liabilities	
Current	(1,065)
Non-current	—
Equity before fair value increments on purchase and NCI	11,879
Fair value increments	1,105
Equity including fair value increments on purchase	12,984
Capstone's interest	50 %
Carrying value of investment	6,492

For the year ended Summarized Statements of Income	Dec 31, 2022 Obra Maestra
Revenue	—
Net income (loss)	(1,777)
Capstone's interest	50 %
Subtotal	(889)
Adjustment for net income prior to June 7 execution of agreement	194
Net income (loss) to Capstone	(695)

NOTE 11. CAPITAL ASSETS

(A) Continuity

	Jan 1, 2022	Additions	Disposals [1]	Transfers	Dec 31, 2022
Cost					
Land	1,374	109	(72)	—	1,411
ROU assets (refer to note 16)	40,252	295	—	—	40,547
Equipment and vehicles	12,581	1,324	(386)	—	13,519
Property and plant [1]	1,580,092	15,768	(4,893)	—	1,590,967
	1,634,299	17,496	(5,351)	—	1,646,444
Accumulated depreciation					
ROU assets	(5,408)	(2,105)	—	—	(7,513)
Equipment and vehicles	(8,656)	(481)	386	—	(8,751)
Property and plant	(597,874)	(80,221)	2,837	—	(675,258)
	(611,938)	(82,807)	3,223	—	(691,522)
Net carrying value	1,022,361	(65,311)	(2,128)	—	954,922

(1) Disposals of $2,128 were offset by proceeds of $3,020 resulting in a $892 gain (refer to note 24).

	Jan 1, 2021	Additions	Disposals	Transfers	Dec 31, 2021
Cost					
Land	1,084	290	—	—	1,374
ROU assets (refer to note 16)	37,950	2,302	—	—	40,252
Equipment and vehicles	12,343	267	(29)	—	12,581
Property and plant [1], [2]	1,243,492	84,460	(3,962)	256,102	1,580,092
	1,294,869	87,319	(3,991)	256,102	1,634,299
Accumulated depreciation					
ROU assets	(3,439)	(1,969)	—	—	(5,408)
Equipment and vehicles	(8,292)	(393)	29	—	(8,656)
Property and plant	(522,799)	(77,984)	2,909	—	(597,874)
	(534,530)	(80,346)	2,938	—	(611,938)
Net carrying value	760,339	6,973	(1,053)	256,102	1,022,361

(1) Additions included $75,019 related to SWNS. Refer to note 3.
(2) Transfers of $256,102 from projects under development when Claresholm and Riverhurst achieved COD in 2021. Refer to note 12.

(B) Reconciliation to Cash Additions for the Cash Flow Statement

For the year ended	Dec 31, 2022	Dec 31, 2021
Additions	17,496	87,319
Adjustment for non-cash ROU asset additions	(295)	(2,302)
Adjustment for change in capital asset additions included in accounts payable and accrued liabilities	18,493	3,905
Cash additions	35,694	88,922

NOTE 12. PROJECTS UNDER DEVELOPMENT

(A) Continuity

	2022	2021
As at January 1	38,530	177,128
Capitalized costs during the year	208,140	117,504
Less government funding	(79,189)	—
Transfer to equity accounted investments [1]	(5,463)	—
Costs transferred to capital assets [2]	—	(256,102)
As at December 31 [3]	162,018	38,530

(1) Refer to note 10.
(2) Amounts were transferred on COD of Claresholm and Riverhurst. Refer to note 11.

(3) The balance primarily includes costs to develop the Wild Rose 2 project ($63,078), the Buffalo Atlee wind projects ($41,910), the Michichi and Kneehill solar projects ($$19,977 and $19,920, respectively), the early-stage US development projects ($10,087), and the early-stage Canadian development projects ($7,046).

(B) Reconciliation to Cash Additions for the Cash Flow Statement

For the year ended	Dec 31, 2022	Dec 31, 2021
Additions	208,140	117,504
Adjustment for change in additions to PUD included in accounts payable and accrued liabilities	(4,739)	(8,817)
Cash additions	203,401	108,687

NOTE 13. INTANGIBLE ASSETS

	Jan 1, 2022	Additions	Dec 31, 2022
Assets			
Computer software	668	—	668
Electricity supply and other contracts	203,628	—	203,628
Water rights	73,018	—	73,018
	277,314	—	277,314
Accumulated amortization			
Computer software	(312)	(81)	(393)
Electricity supply and other contracts	(94,997)	(11,278)	(106,275)
Water rights	(30,719)	(2,116)	(32,835)
	(126,028)	(13,475)	(139,503)
Net carrying value	151,286	(13,475)	137,811

	Jan 1, 2021	Additions	Dec 31, 2021
Assets			
Computer software	463	205	668
Electricity supply and other contracts (1)	171,407	32,221	203,628
Water rights	73,018	—	73,018
	244,888	32,426	277,314
Accumulated amortization			
Computer software	(265)	(47)	(312)
Electricity supply and other contracts	(83,600)	(11,397)	(94,997)
Water rights	(28,608)	(2,111)	(30,719)
	(112,473)	(13,555)	(126,028)
Net carrying value	132,415	18,871	151,286

(1) Additions related to SWNS, of which $31,015 were cash additions. Refer to note 3.

NOTE 14. INCOME TAXES

(A) Deferred Income Tax

As at	Dec 31, 2022	Dec 31, 2021
Deferred income tax assets	6,328	176
Deferred income tax liabilities	(98,135)	(86,460)
Net deferred income tax liability	(91,807)	(86,284)

The net deferred income tax liability, without taking into consideration the offsetting of balances within the same jurisdiction, are detailed as follows:

As at	Dec 31, 2022	Dec 31, 2021
Non-capital loss carry forwards	32,127	21,853
Asset retirement obligations	3,153	2,877
Other	6,317	8,562
Deferred income tax assets	41,597	33,292
Capital assets	(94,078)	(81,453)
Intangible assets	(31,505)	(34,489)
Financial instruments	(5,774)	(1,665)
Loan premium and deferred financing costs	(2,047)	(1,969)
Deferred income tax liabilities	(133,404)	(119,576)
Net deferred income tax liability	(91,807)	(86,284)

A continuity of the net deferred income tax liability follows:

	2022	2021
Net deferred income tax liability as at January 1	(86,284)	(83,760)
Recorded in earnings	(12,965)	(3,531)
Acquisition (1)	4,038	—
Recorded in equity	3,402	—
Recorded in OCI	2	—
Other	—	1,007
Net deferred income tax liability as at December 31	(91,807)	(86,284)

(1) Relates to the Genalta purchase. Refer to note 3.

(B) Timing of Deferred Income Tax Reversal

The timing of deferred income tax reversal is summarized as follows:

As at	Dec 31, 2022	Dec 31, 2021
Within 12 months	20,602	33,246
After more than 12 months	(112,409)	(119,530)
Net deferred income tax liability	(91,807)	(86,284)

(C) Tax Loss Carry Forwards

Capstone's tax loss carry forwards and the portion recognized in deferred income tax assets were as follows:

	Expiry	Recognized	Unrecognized	Dec 31, 2022	Dec 31, 2021
Canadian – non-capital losses	2026 – 2042	125,710	90,717	216,427	150,842
US – non-capital losses	2024 – 2028	—	21,913	21,913	20,777
Canadian – capital losses	No expiry	—	2,326	2,326	325

The Corporation also has $9,829 of unrecognized deferred tax assets, which have not been recognized as at December 31, 2022 (2021 - $1,805).

(D) Rate Reconciliation

The following table reconciles the expected income tax expense using the statutory tax rate to the expense:

For the year ended	Dec 31, 2022	Dec 31, 2021
Income (loss) before income taxes	43,582	20,082
Statutory income tax rate	25.13 %	25.05 %
Income tax expense based on statutory income tax rate	10,952	5,031
Permanent differences	1,714	395
Tax rate differentials	427	(981)
Change in unrecognized deferred tax assets	1,356	1,114
Other	(2,215)	(1,948)
Total income tax expense (recovery)	12,234	3,611

The statutory income tax rate of 25.13% (2021 - 25.05%) changes in response to Capstone's allocation of taxable income to different tax jurisdictions.

(E) Current Income Taxes

Current income taxes payable of $1,211 are included in accounts payable and other liabilities on the statement of financial position (refer to note 15) (2021 - $1,867).

NOTE 15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	Dec 31, 2022	Dec 31, 2021
Dividends payable	463	463
Income taxes payable	1,211	1,867
Other accounts payable and accrued liabilities	52,302	53,075
	53,976	55,405

Income taxes payable	Dec 31, 2022	Dec 31, 2021
Canadian Renewable and Conservation Expense ("CRCE") penalties (1)	659	1,647
Current income taxes payable	185	217
Taxes payable on preferred share dividends	367	3
	1,211	1,867

(1) CRCE penalties related to flow-through shares originally issued by Renewable Energy Developers Inc., which was acquired by Capstone in 2013.

NOTE 16. LEASE LIABILITIES

	2022	2021
As at January 1	37,629	35,933
Interest expense	2,212	2,261
Additions (1)	229	2,302
Lease payments	(3,381)	(2,867)
Lease liabilities	36,689	37,629
Less: current portion	(1,380)	(1,204)
As at December 31	35,309	36,425

(1) Includes $229 of additions for Genalta (2021 - $2,302 for SWNS).

NOTE 17. LONG-TERM DEBT

(A) Power

As at	Dec 31, 2022		Dec 31, 2021	
	Fair Value	Carrying Value	Fair Value	Carrying Value
CPC credit facilities	35,500	35,500	28,500	28,500
Project debt				
Wind	545,810	548,492	534,995	518,858
Solar	214,338	219,414	196,135	196,382
Hydros	63,609	66,610	77,199	68,346
Gas	66,080	66,080	69,863	69,863
Other	60	60	—	—
Power	925,397	936,156	906,692	881,949
Less: deferred financing costs		(20,737)		(16,297)
Long-term debt		915,419		865,652
Less: current portion		(87,862)		(149,473)
		827,557		716,179

The power segment has drawn $87,315 for letters of credit, as well as $40,679 which are supported by the common shareholder. Refer to note 26.

The project debts within the power segment have regular principal and interest payments over the term to maturity and are secured only by the assets of their respective projects, with no recourse to the Corporation's other assets, except as noted. Refer to note 25 for description of limited recourse guarantees.

In addition, the individual project debt agreements require the respective projects to maintain certain restrictive covenants including a minimum debt service coverage ratio to allow distributions to Capstone.

(i) CPC Credit Facilities

	Interest Rate	Maturity	Dec 31, 2022	Dec 31, 2021
Available credit				
Revolving credit facility (1)		Dec 15, 2024	220,000	120,500
US LC facility (2)		Dec 23, 2023	19,910	18,637
Total available credit - all facilities			239,910	139,137
Amount drawn				
Revolving loan	3.10%		35,500	25,800
Letters of credit - revolving credit facility (3)	1.99%		36,842	62,232
Letters of credit - US LC facility	1.68%		18,861	—
Remaining available credit			148,707	51,105

(1) The effective rate on the Revolving credit facility was 3.1% in 2022 (2021 - 1.93%) based on a variable rate plus an applicable margin.
(2) On February 28, 2023, the US LC facility was increased to $39,955, and now expires on December 23, 2024.
(3) As at December 31, 2022, Capstone had 20 letters of credit authorized under the revolving credit facility.

In 2022, CPC increased the capacity on its revolving credit facility and extended the maturity to December 15, 2024. As at December 31, 2022, the revolving credit facility capacity was $220,000, of which $35,500 was drawn and $36,842 supports letters of credit for the operating and construction facilities. The US LC Facility has $13,926 USD of letters of credit for construction facilities, leaving a total remaining available corporate credit capacity of $148,707.

In addition, Capstone has $40,679 of letters of credit supported by the common shareholder, refer to note 26.

Under the CPC credit facilities, CPC is subject to customary covenants, including specific limitations on leverage and interest coverage ratios, and a minimum cash flow profile. The collateral for the CPC credit facilities is provided by Capstone, CPC, and its material subsidiaries. CPC and its material subsidiary guarantors (with the exception of certain subsidiaries, including previously encumbered project financed subsidiaries) provided demand debentures granting a first ranking security interest in all present and future property, a floating charge over real property and first ranking securities pledge agreements (subject to certain permitted liens). Capstone provided a limited recourse guarantee, a securities pledge agreement, and an assignment of indebtedness owed to Capstone by CPC.

(ii) Wind

Project debt	Dec 31, 2022	Dec 31, 2021
SLGR (1)	116,396	99,476
SWNS	79,938	85,252
Glen Dhu	59,033	64,320
Grey Highlands Clean	57,980	61,472
Goulais	55,936	59,269
Riverhurst	46,514	—
Saint-Philémon	42,293	44,528
Erie Shores	32,221	40,253
Amherst	25,978	28,109
Skyway 8 (2)	14,471	15,405
SkyGen (2)	10,882	12,886
Glace Bay	6,850	7,888
	548,492	518,858

(1) On July 14, 2022, the GHG, SR, and SLS wind projects were reorganized and the assets and liabilities of these wind facilities were transferred into SLGR.
(2) SkyGen project debt includes financing related to the Ferndale, Ravenswood, and Proof Line facilities. Skyway 8 was financed separately.

SLGR	Interest Rate (4)	Maturity	Dec 31, 2022	Dec 31, 2021
Term loan	4.50%	Dec 31, 2036	116,396	99,476

(1) SLGR is required to set aside $7,300 as letters of credit to cover the debt service reserve.
(2) SLGR is required to set aside $627 as restricted cash to fund its operating and maintenance reserve (see note 4).
(3) On July 14, 2022, Capstone entered into a credit facility which provided $119,000 of project debt at a variable interest rate and matures on December 31, 2036. The existing interest rate swaps were novated to the new facility and the variable rate obligations were exchanged for fixed. The refinancing was tied to the SLGR reorganization. Refer to Note 3.
(4) As at December 31, 2022, SLGR had swap contracts to convert interest to a fixed rate (see note 9a).

SWNS	Interest Rate (4)	Maturity	Dec 31, 2022	Dec 31, 2021
Term loan	3.05%	Mar 31, 2026	79,938	85,252

(1) SWNS is required to set aside $4,900 as letters of credit to cover the debt service reserve.
(2) SWNS is required to set aside $660 as restricted cash to fund its operating and maintenance reserve (see note 4).
(3) On January 7, 2021, Capstone entered into a credit facility which provided $88,600 of project debt at a variable interest rate and matures on March 31, 2026.
(4) As at December 31, 2022, SWNS had swap contracts to convert interest to a fixed rate (see note 9a).

Glen Dhu	Interest Rate	Maturity	Dec 31, 2022	Dec 31, 2021
Term loan	5.33%	Dec 31, 2030	59,033	64,320

(1) Glen Dhu is required to set aside $4,505 as letters of credit to fund its debt service reserve.

Grey Highlands Clean	Interest Rate (3)	Maturity	Dec 31, 2022	Dec 31, 2021
Term loan	2.85%	Jun 17, 2024	57,980	61,472

(1) Grey Highlands Clean is required to set aside $2,750 as letters of credit to cover the debt service reserve.
(2) Grey Highlands Clean is required to set aside $670 as restricted cash to fund its operating and maintenance reserve (see note 4).
(3) As at December 31, 2022, Grey Highlands Clean had swap contracts to convert interest to a fixed rate (see note 9a).

Goulais	Interest Rate	Maturity	Dec 31, 2022	Dec 31, 2021
Term loan	5.16%	Sep 30, 2034	55,936	59,269

(1) Goulais is required to set aside $3,252 as restricted cash to cover the debt service reserve (see note 4).

Riverhurst	Interest Rate (3)	Maturity	Dec 31, 2022	Dec 31, 2021
Term loan	4.80%	Dec 31, 2041	46,514	—

(1) Riverhurst is required to set aside $2,500 as letters of credit to cover the debt service reserve.
(2) On April 27, 2022, Capstone entered into a credit facility which provided $47,000 of project debt at a variable interest rate and matures on December 31, 2041.
(3) As at December 31, 2022, Riverhurst had swap contracts to convert interest to a fixed rate (see note 9a).

Saint-Philémon	Interest Rate	Maturity	Dec 31, 2022	Dec 31, 2021
Term loan	5.49%	May 31, 2034	42,293	44,528

(1) Saint-Philémon is required to set aside $1,224 as letters of credit against the borrowing capacity of the CPC revolving credit facility to cover the debt service reserve.

Erie Shores (3)	Interest Rate	Maturity	Dec 31, 2022	Dec 31, 2021
Tranche A	5.96%	Apr 1, 2026	19,395	24,237
Tranche C	6.15%	Apr 1, 2026	12,826	16,016
			32,221	40,253

(1) Erie Shores project debt has a $5,000 limited recourse guarantee provided by CPC to the lenders of the Erie Shores project debt.
(2) Erie Shores is required to set aside $5,264 as restricted cash and $550 as letters of credit against the borrowing capacity of the CPC revolving credit facility to cover the debt service and maintenance reserves (see note 4).
(3) Tranche B matured on April 1, 2016.

Amherst	Interest Rate	Maturity	Dec 31, 2022	Dec 31, 2021
Term loan	6.20%	Apr 30, 2032	25,978	28,109

(1) Amherst's project debt has a $1,000 limited recourse guarantee provided by CPC to the lenders of the Amherst project debt.
(2) Amherst is required to set aside $89 as restricted cash and $1,498 as letters of credit against the borrowing capacity of the CPC revolving credit facility to cover the debt service and maintenance reserves (see note 4).

Skyway 8	Interest Rate	Maturity (2)	Dec 31, 2022	Dec 31, 2021
Term loan	3.60%	Mar 17, 2023	14,471	15,405

(1) Skyway 8 is required to set aside $766 as restricted cash to cover the debt service reserve (see note 4).
(2) On March 25, 2021, the Skyway 8 term loan was refinanced with existing lenders.

SkyGen	Interest Rate	Maturity (2)	Dec 31, 2022	Dec 31, 2021
Term loans	3.60%	Mar 23, 2023	10,882	12,886

(1) SkyGen is required to set aside $1,334 as restricted cash to cover the debt service reserve (see note 4).
(2) On March 25, 2021, the SkyGen term loan was refinanced with existing lenders.

Glace Bay	Interest Rate	Maturity	Dec 31, 2022	Dec 31, 2021
Term loan	5.99%	Mar 15, 2027	3,617	4,315
Term loan	4.72%	Oct 1, 2032	3,233	3,573
			6,850	7,888

(1) Glace Bay is required to set aside $2,380 as restricted cash to cover the debt service and operating and maintenance reserves (see note 4).

(iii) Solar

Project debt	Dec 31, 2022	Dec 31, 2021
Claresholm	101,819	112,391
Amherstburg	76,095	83,991
Michichi and Kneehill	41,500	—
	219,414	196,382

Claresholm	Interest Rate (2)	Maturity (3)	Dec 31, 2022	Dec 31, 2021
Term loan	4.77%	Mar 24, 2026	101,819	112,391

(1) Claresholm is required to set aside $2,206 as restricted cash to cover construction holdbacks with vendors (see note 4).
(2) As at December 31, 2022, Claresholm had swap contracts to convert floating interest to a fixed rate (see note 9a).
(3) On March 24, 2022, the Claresholm construction facility was converted to a term loan, amortizing over 20 years. The term loan is comprised of two tranches, a floating interest rate tranche which matures on March 24, 2026 and a fixed interest rate tranche which matures on July 9, 2032.

Amherstburg	Interest Rate	Maturity	Dec 31, 2022	Dec 31, 2021
Senior term loan	3.49%	Dec 31, 2030	52,836	58,816
Subordinated term loan	3.78%	Jun 30, 2031	23,259	25,175
			76,095	83,991

(1) Amherstburg is required to set aside $5,786 as letters of credit against the borrowing capacity of the CPC revolving credit facility to cover the debt service and maintenance reserves.

	Interest Rate (2)	Maturity	Dec 31, 2022	Dec 31, 2021
Kneehill - Construction facility	5.17%	Dec 22, 2027	24,262	—
Michichi - Construction facility	5.17%	Dec 22, 2027	17,238	—
			41,500	—

(1) As at December 31, 2022, Michichi, as administrative borrower, had swap contracts to convert interest for Kneehill and Michichi to a fixed rate (see note 9a).
(2) On December 22, 2022, Capstone entered into a credit facility which provided $41,500 of project debt at a variable interest rate and matures on December 22, 2027.

(iv) Gas

	Interest Rate (2)	Maturity	Dec 31, 2022	Dec 31, 2021
Term loan	3.69%	Apr 1, 2026	45,880	49,663
Term loan	4.07%	Apr 1, 2026	20,200	20,200
			66,080	69,863

(1) Cardinal is required to set aside $1,334 as restricted cash to cover the operating and maintenance reserves and $3,800 as letters of credit to cover the debt service reserve (see note 4).
(2) As at December 31, 2022, Cardinal had swap contracts to convert interest to a fixed rate (see note 9a).

(v) Hydros

	Interest Rate	Maturity	Dec 31, 2022	Dec 31, 2021
Senior secured bonds	4.56%	Jun 30, 2040	48,737	50,164
Subordinated secured bonds	7.00%	Jun 30, 2041	17,873	18,182
			66,610	68,346

(1) The hydro facilities are required to set aside $13,414 as letters of credit against the borrowing capacity of the CPC revolving credit facility to cover the debt service and maintenance reserves.

(B) Long-term Debt Covenants

For the year ended and as at December 31, 2022, the Corporation and its subsidiaries complied with all financial and non-financial debt covenants.

(C) Long-term Debt Repayments

The following table summarizes total principal payments required under each of the Corporation's facilities in the next five years and thereafter:

Year of Repayment	Within one year	One year to five years	Beyond five years	Total
Power	87,862	401,596	446,698	936,156

NOTE 18. LIABILITY FOR ASSET RETIREMENT OBLIGATION

The carrying value of these obligations is based on estimated cash flows required to settle these obligations in present day costs. The costs relate to site restoration and decommissioning of Cardinal and the operating wind and hydro power facilities.

The following table provides the underlying assumptions and reconciles the Corporation's total asset retirement obligation activity:

	Dec 31, 2022	Dec 31, 2021
Assumptions:		
Expected settlement date	2026-2058	2022-2058
Inflation rate	2.0 %	2.0 %
Credit adjusted discount rate	5.00% - 6.00%	4.75% - 5.25%
Balance, beginning of year	12,000	10,249
Revision of estimates	80	(868)
Asset Acquisition (1)	—	1,968
Liabilities incurred (2)	—	110
Accretion expense	602	541
Balance, end of year	12,682	12,000

(1) Asset acquisition related to initial valuation of SWNS asset retirement obligation in 2021. Refer to note 3.
(2) Liabilities incurred related to Riverhurst on COD in 2021.

NOTE 19. SHAREHOLDERS' EQUITY

The following table summarizes the Corporation's share capital:

As at	Dec 31, 2022	Dec 31, 2021
Common and Class A shares	142,270	62,270
Preferred shares	72,020	72,020
	214,290	134,290

(A) Common and Class A Shares

Capstone is authorized to issue an unlimited number of common and Class A shares, all of which have the same rights and attributes. As at December 31, 2022, there were 304,609 common and Class A shares issued and outstanding, with a carrying value of $142,270 (2021 - 304,609 common and Class A shares issued and outstanding with a carrying value of $62,270).

(B) Preferred Shares

Capstone is authorized to issue preferred shares equal to 50% of the outstanding common shares. As at December 31, 2022 and 2021, there were 3,000 series A preferred shares issued and outstanding, with a carrying value of $72,020.

The series A preferred shares have a cumulative discretionary dividend, which resets on each 5-year anniversary; the next anniversary date is July 31, 2026. The shares are non-voting and redeemable at the Corporation's discretion.

In accordance with the terms and conditions of the share agreement, all Class A preferred shares accrue dividends at a fixed rate of 3.702% per annum and preferred dividends are paid quarterly.

(C) Dividends

No dividends were declared in 2022 or 2021 in respect of the Corporation's common shareholders.

For the year ended	Dec 31, 2022	Dec 31, 2021
Preferred shares declared (1), (2)	2,871	2,601

(1) Includes $95 of deferred income taxes recovery for the year ended December 31, 2022 (2021 - $14).
(2) Capstone has included $463 of accrued preferred dividends as declared on November 14, 2022 (2021 - $463).

(D) Capital Management

The Corporation manages its capital to achieve the following objectives:

- Maintain a capital structure that provides financial flexibility to the Corporation to ensure access to debt on commercially reasonable terms, without exceeding its debt capacity;
- Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments and distribution payments; and
- Deploy capital to provide an appropriate investment return to its security holders.

The Corporation's financial strategy is designed to maintain a capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In doing so, the Corporation may receive capital contributions from its common shareholder, issue additional shares, issue additional debt, issue debt to replace existing debt with similar or different characteristics, or adjust the amount of dividends paid to shareholders.

The Corporation's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Corporation's needs and economic conditions at the time of the transaction.

The Corporation is not subject to any external capital requirements and is in compliance with all debt covenants as described in note 17.

NOTE 20. NON-CONTROLLING INTERESTS

(A) Non-controlling Interests

Non-controlling interests represent ownership interests by third parties in businesses consolidated by Capstone. Capstone's entities with non-controlling interests and Capstone's partners as at December 31, 2022 were:

Partner(s)	Obton A/S ("Obton")	Sawridge First Nation ("Sawridge")	Batchewana First Nation ("BFN")	One West Holdings Ltd. ("Concord")	Firelight Infrastructure Partners LP ("Firelight")	Municipal interests
Project(s) and Ownership	Claresholm 49%	SFN Projects 25% (1)	Goulais 49%	SLGR 49%	Amherst 49%	Saint-Philémon 49% (2)

(1) The SFN Projects are comprised of Buffalo Atlee, Michichi, and Kneehill.
(2) Saint-Philémon is 48.9% owned by Municipalité Régionale de Comté de Bellechasse and 0.1% owned by Municipalité de Saint-Philémon.

Capstone has agreements with each partner that govern distributions from these investments. In addition, distributions must also comply with the respective debt agreements.

The balances and changes in non-controlling interests are:

	Obton's interest in Claresholm	Sawridge's interest in SFN Projects(1)	BFN's interest in Goulais (2)	Concord's interest in SLGR (3)	Firelight's interest in Amherst	Municipal interest in Saint-Philémon	Total
January 1, 2021	51,690	1,468	17,862	17,558	8,941	(669)	96,850
NCI portion of net income	5,416	—	1,297	—	626	22	7,361
Dividends declared	(2,450)	—	(1,265)	—	(1,181)	(922)	(5,818)
Convertible debenture repayments	—	—	—	(3,714)	—	—	(3,714)
Contributions from NCI	—	762	—	—	—	—	762
AOCI attributable to NCI	688	—	—	—	—	—	688
As at December 31, 2021	55,344	2,230	17,894	13,844	8,386	(1,569)	96,129
NCI portion of net income	3,364	116	1,071	519	807	363	6,240
Dividends declared	(781)	—	(1,265)	(284)	(441)	(897)	(3,668)
Convertible debenture repayments	—	—	—	(1,150)	—	—	(1,150)
Contributions from NCI	—	19,104	—	—	—	—	19,104
Deferred tax recovery on transaction with NCI	—	—	—	2,385	—	—	2,385
AOCI attributable to NCI	—	—	—	—	—	—	—
As at December 31, 2022	57,927	21,450	17,700	15,314	8,752	(2,103)	119,040

(1) The SFN Projects are comprised of Buffalo Atlee, Michichi, and Kneehill.
(2) Net income is allocated based on pro-rata share of distributions.
(3) Concord's interest in SGLR (formerly named SPOD) prior to 2022 was in the holding company which owned the GHG, SR, and SLS wind projects. In 2022, there was a reorganization of these projects. Refer to note 3.

(B) Summarized Information for Material Partly Owned Subsidiaries

As at Summarized Statements of Financial Position	December 31, 2022 Claresholm	SFN Projects	Goulais	SLGR	Amherst	Saint-Philémon
Assets						
Current	16,580	55,832	2,378	36,731	2,097	1,812
Non-current	214,764	84,081	—	117,667	45,502	41,461
Liabilities						
Current	(12,842)	(14,528)	(748)	(7,290)	(3,029)	(2,647)
Non-current	(100,277)	(40,250)	(2,016)	(107,504)	(24,367)	(41,124)
Total equity	118,225	85,135	(386)	39,604	20,203	(498)
Attributable to:						
Shareholders of Capstone	60,298	63,685	(18,086)	24,290	11,451	1,605
NCI	57,927	21,450	17,700	15,314	8,752	(2,103)
	118,225	85,135	(386)	39,604	20,203	(498)

As at Summarized Statements of Financial Position	December 31, 2021 Claresholm	SFN Projects	Goulais	SLGR	Amherst	Saint-Philémon
Assets						
Current	21,898	262	2,174	25	1,426	1,563
Non-current	218,927	8,143	—	68,704	47,543	44,829
Liabilities						
Current	(13,382)	(148)	(408)	(34)	(2,887)	(2,487)
Non-current	(114,493)	—	(1,199)	—	(26,627)	(43,443)
Total equity	112,950	8,257	567	68,695	19,455	462
Attributable to:						
Shareholders of Capstone	57,606	6,027	(17,327)	54,851	11,069	2,031
NCI	55,344	2,230	17,894	13,844	8,386	(1,569)
	112,950	8,257	567	68,695	19,455	462

For the year ended Summarized Statements of Income	December 31, 2022 Claresholm	SFN Projects	Goulais	SLGR	Amherst	Saint-Philémon
Revenue	24,710	—	3,098	8,726	8,165	8,429
Net income	6,866	464	312	1,057	1,648	741
OCI	—	—	—	—	—	—
Total net income and comprehensive income	6,866	464	312	1,057	1,648	741
Attributable to:						
Shareholders of Capstone	3,502	348	(759)	538	841	378
NCI	3,364	116	1,071	519	807	363
	6,866	464	312	1,057	1,648	741

For the year ended Summarized Statements of Income	December 31, 2021 Claresholm	SFN Projects	Goulais	SLGR	Amherst	Saint-Philémon
Revenue	22,079	—	2,607	5,375	7,933	7,821
Net income (loss)	11,053	—	44	5,192	1,277	45
OCI	688	—	—	—	—	—
Total net income and comprehensive income	11,741	—	44	5,192	1,277	45
Attributable to:						
Shareholders of Capstone	6,325	—	(1,253)	5,192	651	23
NCI	5,416	—	1,297	—	626	22
	11,741	—	44	5,192	1,277	45

For the year ended			December 31, 2022			
Summarized Statements of Cash Flows	**Claresholm**	**SFN Projects**	**Goulais**	**SLGR**	**Amherst**	**Saint-Philémon**
Operating	9,593	(254)	4,851	3,953	4,664	4,275
Investing	(3,229)	(138,631)	—	9,073	(1,305)	(21)
Financing	(12,376)	184,186	(4,430)	(12,137)	(2,927)	(3,934)
Net increase / (decrease) in cash and equivalents	(6,012)	45,301	421	889	432	320

For the year ended			December 31, 2021			
Summarized Statements of Cash Flows	**Claresholm**	**SFN Projects**	**Goulais**	**SLGR**	**Amherst**	**Saint-Philémon**
Operating	10,951	—	3,484	5,242	5,175	3,307
Investing	(53,437)	(2,674)	—	—	(1,378)	(101)
Financing	38,864	2,674	(4,150)	(5,375)	(4,670)	(3,818)
Net increase / (decrease) in cash and equivalents	(3,622)	—	(666)	(133)	(873)	(612)

NOTE 21. SHARE-BASED COMPENSATION

Share Appreciation Rights Plan

On April 1, 2017, a SAR plan was approved by the board. The SAR plan allows up to 15,230,457 SAR units, or 5% of the number of shares issued, to be granted. At the beginning of 2022, there were 12,641,267 units outstanding, 2,589,190 were issued during the year, and there were 15,230,457 units outstanding as at December 31, 2022. A SAR unit entitles the holder to the appreciation in value of one unit over a period of time. The SAR units have a maximum life of 13 years and vest upon a sale transaction, defined as more than 50% of the equity securities of Capstone being sold to a third party. The sale price will determine the ultimate fair value of the SAR units on the vesting date. The SAR units will be settled in cash for individuals who meet the vesting conditions on the vesting date. No liability has been recorded as a sale transaction is not currently probable.

NOTE 22. REVENUE BY NATURE

Capstone's power segment generates revenue through long-term power contracts which vary in nature as disaggregated below. The corporate activities do not generate revenue.

	For the year ended	
	Dec 31, 2022	**Dec 31, 2021**
Wind	131,420	119,821
Solar (1)	41,233	38,688
Biomass (1)	34,871	27,666
Gas (2)	33,933	24,796
Hydro	13,565	11,596
Total Revenue	255,022	222,567

(1) Solar and Biomass include revenue from the generation and sale of electricity at market rates and the sale of emissions offset credits. Revenue from the sales of emissions offset credits was $5,574 for Biomass and $3,101 for Solar in 2022 (2021 - $7,020 for Biomass and $1,777 for Solar).

(2) Gas revenue consists of fixed payments for providing capacity and availability based on Cardinal's PPA and other contracts; the remaining revenue is variable based on production.

As at December 31, 2022, Capstone has trade receivable balances of $35,709 (2021 - $28,213).

NOTE 23. EXPENSES BY NATURE

For the year ended	Dec 31, 2022				Dec 31, 2021			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Maintenance & supplies	22,446	—	—	22,446	19,355	—	—	19,355
Wages and benefits [(1)]	13,420	7,031	883	21,334	12,723	6,632	—	19,355
Fuel and transportation	13,589	—	—	13,589	6,957	—	—	6,957
Property expenses [(2)]	8,932	548	386	9,866	7,121	513	117	7,751
Professional fees [(3)]	2,796	510	2,254	5,560	1,868	492	3,142	5,502
Insurance	4,183	138	—	4,321	3,446	92	—	3,538
Power facility administration	3,421	—	—	3,421	3,029	—	—	3,029
Contract termination costs	—	—	2,415	2,415	—	—	—	—
Other	1,925	1,243	771	3,939	1,867	767	685	3,319
Total	70,712	9,470	6,709	86,891	56,366	8,496	3,944	68,806

(1) Wages and benefits include project development direct staff costs in 2022.
(2) Property expenses include leases, utilities, and property taxes.
(3) Professional fees include legal, audit, tax and other advisory services.

NOTE 24. OTHER GAINS AND LOSSES

	For the year ended	
	Dec 31, 2022	Dec 31, 2021
Changes in derivative financial instruments fair value [(1)]	19,365	3,118
Gains (losses) on disposal of capital assets	892	(1,053)
Other [(2)]	(5,290)	—
Other gains and (losses), net	14,967	2,065

(1) The unrealized gains on derivative financial instruments were primarily attributable to gains on interest rate swap contracts due to higher long-term interest rates, offset by losses on the Whitecourt embedded derivative asset due to higher forecasted Alberta Power Pool prices since December 31, 2021.
(2) Includes a fair value loss of $6,202 related to Genalta (refer to note 3), partly offset by a gain of $1,141 on deconsolidation of US development projects which were transferred to Obra Maestra on June 7, 2022 (refer to note 10).

NOTE 25. COMMITMENTS AND CONTINGENCIES

The Corporation, either directly or indirectly through its subsidiaries, has entered into various contracts and commitments in addition to the commitments described in note 8 financial instruments, note 9 financial risk management, notes 17 long-term debt, 18 liability for asset retirement obligation and 19 shareholders' equity as at December 31, 2022 were as follows:

(A) Leases

Lease payments comprised:

	Within one year	One year to five years	Beyond five years	Total
Leases	5,975	23,097	76,493	105,565

The following leases have been included in the table based on known operating lease commitments as follows:

- Capstone's operating wind facilities and wind development projects have entered into agreements to use, or the option to use, land in connection with the operation of existing and future wind facilities. Payment under these agreements is typically a minimum amount with additional payments dependent on the amount of power generated by the wind facility. The agreements can be renewed and extended as far as 2061.
- Cardinal leases the site on which it is located from Ingredion Canada Corporation ("Ingredion"). Under the lease, Cardinal pays monthly rent. The lease extends through 2034 and expires concurrently with the Energy Savings Agreement between Ingredion and Cardinal.
- Capstone's operating solar facilities have entered into agreements to use land in connection with their with terms extending as far as 2060.
- The Corporation has an operating lease for the corporate office ending in 2023.

Capstone's operating lease commitments with no minimum commitments required were:

- Agreements with the Provinces of Ontario and British Columbia for the lease of certain lands and water rights necessary for the operation of its hydro power facilities. The payments under these agreements vary based on actual power production. The terms of the lease agreements extend between 2025 and 2042.

(B) Capital Commitments

Capstone enters into capital commitments in the normal course of operations. As part of Capstone's power development operations, Capstone enters various construction and purchase agreements. As at December 31, 2022, Buffalo Atlee and Wild Rose 2 wind development projects, and the Michichi and Kneehill solar development projects have aggregate commitments of $683,853 for the construction and subsequent operation of the facilities, including payments to original developers. The capital commitments related to these projects made up 90% of Capstone's purchase commitments at December 31, 2022.

(C) Power Purchase Agreements

A significant portion of the Corporation's electricity revenue is earned through long-term PPAs. The majority of these contracts include terms and conditions customary to the industry. For Cardinal's contract, the nature of the material commitments includes: electricity capacity; availability; and production targets. For the remaining power facilities, Capstone is not obligated to deliver electricity; however, in certain circumstances, if a facility fails to meet the performance requirements, the operating facility's PPA may be terminated after a specified period of time. For certain solar and wind projects in development, commitments include availability and product targets subsequent to achieving COD.

(D) Management Services Agreements

Capstone has agreements with all the partially owned wind and solar facilities and development projects, including Amherst, Buffalo Atlee, Claresholm, Goulais, Kneehill, Michichi, Saint-Philémon, and SLGR. For the operating projects, these agreements are primarily for the provision of management and administration services and are based on an agreed percentage of revenue.

(E) Wood Waste Supply Agreement

The Whitecourt and Millar Western fuel supply agreement for wood waste includes sharing mechanisms regarding the price received for electricity and emissions offset credits sold by Whitecourt.

(F) Operations and Maintenance ("O&M") Agreements

Cardinal has a maintenance contract with Siemens Energy Canada Limited covering the gas turbine at Ingredion's 15MW facility.

Capstone has several service and maintenance agreements covering the turbines in operation on various wind facilities. The agreements provide for scheduled and unscheduled maintenance and require annual minimum payments, subject to inflationary increases, as applicable.

Capstone has an O&M agreement with Regional Power OPCO Inc. ("Regional") to operate and maintain the hydro power facilities. Regional is paid a monthly management fee and is eligible for an annual incentive fee.

(G) Energy Savings Agreement ("ESA")

Cardinal has an ESA with Ingredion which matures in 2034. Under the terms of the ESA, Cardinal is required to provide O&M services in respect of the 15MW plant, and supply steam and compressed air to Ingredion for the use of its manufacturing facility. Cardinal entered into a maintenance contract with Siemens Canada Limited in connection with the operation and maintenance of the 15MW plant in order to support Cardinal's satisfaction of the O&M terms of the ESA.

(H) Guarantees

Capstone has provided certain guarantees relating to the government funding received, as well as limited recourse guarantees on the project debt of certain wind and solar projects totaling $24,888 as at December 31, 2022.

There have been no other significant changes to the specified contractual obligations that are outside the ordinary course of business. Capstone is not engaged in any off-balance sheet financing transactions. Due to the nature of their operations, the power facilities are not expected to incur material contingent liabilities upon the retirement of assets.

NOTE 26. RELATED PARTY TRANSACTIONS

(A) Shared Service Arrangement with iCON Infrastructure LLP and subsidiaries ("iCON")

Fees earned from iCON Infrastructure North America Inc. ("iCON NA"), a subsidiary of iCON, under a shared service arrangement, are reported in the consolidated statements of income as an administrative expense recovery. During 2022, Capstone earned fees of $192 from iCON NA (2021 - $235). As at December 31, 2022, accounts receivable included $46 due from iCON NA.

(B) Contributions and Credit Support from iCON

Capstone's Class A common shareholder contributed $80,000 in cash in 2022.

On September 12, 2022, the Class A common shareholder provided letters of credit issued to the benefit of Capstone under a financing and reimbursement agreement. Capstone reimburses the common shareholder for payments made on its behalf, including fees and draws on the letters of credit. For the year ended December 31, 2022, Capstone reimbursed normal course fees of $116. As at December 31, 2022, the balance of outstanding letters of credit is $40,679 to support various development projects.

(C) Compensation of Key Management

Key management includes the Corporation's directors, Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Compensation awarded to key management consisted of salaries, directors' fees, short-term employee benefits and long-term incentive plan payments.

Key Management Compensation for the year ended	Dec 31, 2022	Dec 31, 2021
Salaries, directors' fees and short-term employee benefits (1)	1,732	1,355
	1,732	1,355

(1) The short-term incentive plan component is based on amounts paid during the year.

NOTE 27. SEGMENTED INFORMATION

The Corporation's business has one reportable segment containing the power operations, in order to assess performance and allocate capital, as well as the remaining corporate activities. The power operations and corporate activities are all located in Canada and the US. Management evaluates performance primarily on revenue, expenses and EBITDA. Cash generating units within the power segment have similar economic characteristics based on the nature of the products or services they provide, the customers they serve, the method of distributing those products or services and the prevailing regulatory environment.

For the year ended	Dec 31, 2022			Dec 31, 2021		
	Power	Corporate	Total	Power	Corporate	Total
Revenue	255,022	—	255,022	222,567	—	222,567
Expenses	(76,912)	(9,979)	(86,891)	(59,459)	(9,347)	(68,806)
EBITDA	194,458	(8,333)	186,125	165,264	(8,586)	156,678
Interest expense	(46,261)	—	(46,261)	(42,695)	—	(42,695)
Income tax recovery (expense)	(14,294)	2,060	(12,234)	(6,571)	2,960	(3,611)
Net income (loss)	37,867	(6,519)	31,348	22,458	(5,987)	16,471
Additions to capital assets, net	17,188	308	17,496	87,319	—	87,319
Additions to PUD (1)	208,140	—	208,140	117,504	—	117,504

(1) PUD additions primarily include costs to develop the Wild Rose 2 and Buffalo Atlee wind projects, Michichi and Kneehill solar projects, and early-stage US development projects. Refer to note 12.

NOTE 28. SUBSEQUENT EVENTS

Buffalo Atlee financing

On January 27, 2023, Buffalo Atlee entered into a credit agreement which provided up to $50,000 of variable rate debt for the construction of the wind facilities. To mitigate the interest rate risk, a swap contract was executed by Buffalo Atlee 1 as administrative borrower to convert the floating interest rate obligations to a fixed rate for the Buffalo Atlee projects.

US LC facility extension

On February 28, 2023, the US LC facility was increased to $39,955, and now expires on December 23, 2024.

INVESTOR INFORMATION

Quick Facts	
Preferred shares outstanding	3,000,000
Securities exchange and symbols	Toronto Stock Exchange: CSE.PR.A

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